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Canada. Bill (E2) to enable the Establishment, etc. of Free Foreign Trade Zones, Ports, Etc.

1st SESSION, 18th PARLIAMENT, 1 EDWARD VIII, 1936

THE SENATE OF CANADA

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PROCEEDINGS

OF THE

SPECIAL COMMITTEE

ON

BILL (E2)

To Enable the Establishment, Etc., of Free Foreign Trade Zones

No. 1

The Honourable J. H. Rainville, Chairman

WITNESSES:

Major George Washington Stephens, Montreal, Quebec.

Mr. A. L. W. MacCallum, Montreal, Quebec, Manager and Secretary, Shipping Federation of Canada.

Mr. W. McLeod Clarke, Montreal, Quebec, Secretary of the Canadian Chamber of Commerce.

Mr. E. D. Lennie, Ottawa, Ontario, Chief Inspector of Customs and Excise, Department of National Revenue.

Mr. William Ide, Ottawa, Ontario, General Executive Assistant, Department of National Revenue.

APPENDIX

Copy of an English translation of a report on a Private Bill presented to the Chamber of Representatives, France, providing for the establishment of free sea and river zones.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1936

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ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate for the 14th May, 1936.

Pursuant to the Order of the Day, the Senate resumed the adjourned debate on the motion that the Bill (E2), intituled: "An Act to enable the establishment, operation and maintenance of free foreign trade zones by provinces and municipalities or by public agencies of either thereof," be referred to the Standing Committee on Railways, Telegraphs and Harbours.

After debate,

In amendment, it was moved by the Right Honourable Senator Meighen that all the words after the word "referred" be struck out and that the following be substituted therefor: "to a Special Committee composed of the Honourable Senators Barnard, Beaubien, Cantley, Casgrain, Duff, King, Rainville, Robinson and Sinclair."

The question being put on the motion in amendment, it was—

Resolved in the affirmative.

The question being again put on the main motion, as amended, it was—

Resolved in the affirmative, and—

Ordered accordingly.

Extract from the Minutes of Proceedings of the Senate for the 20th May, 1936.

The Special Committee to whom was referred the Bill (E2), intituled: "An Act to enable the establishment, operation and maintenance of free foreign trade zones by provinces and municipalities or by public agencies of either thereof," beg leave to report, as follows:—

The Committee recommend:

1. That its quorum be five (5) Members.
2. That it be authorized to send for persons, papers and records.
3. That the number of Senators constituting the Committee be increased by two.

MEMBERS OF THE COMMITTEE

The Honourable Senators: Barnard, Beaubien, Cantley, Casgrain, Donnelly, Duff, King, Murdock, Rainville (*Chairman*), Robinson, Sinclair.

ELECTION OF THE CHAIRMAN

Extract from the Minutes of the Committee, 20th May, 1936.

On motion of the Honourable Senator Casgrain, the Honourable Senator Rainville was elected Chairman and took the Chair.

MINUTES OF EVIDENCE

THE SENATE,
WEDNESDAY, June 3, 1936.

The Special Committee to whom was referred Bill (E2), An Act to enable the establishment, operation and maintenance of free foreign trade zones by provinces and municipalities or by public agencies of either thereof, met this day at 10.30 a.m.

Honourable Mr. Rainville in the Chair.

The CHAIRMAN: Honourable senators, we have with us this morning Major George Washington Stephens, former President of the Governing Commission of the Saar Territory, Member of L'Académie Diplomatique Internationale, Paris, former first President of the Montreal Harbour Commission as reorganized in 1907, former Member of the Legislature of the Province of Quebec and joint author with Frederick W. Cowie, B.A.Sc., M. Inst. C. E., of Report on British and Continental Ports, April, 1908. Is it the pleasure of the Committee to hear Major Stephens on the free ports question?

Some Hon. SENATORS: Yes.

The CHAIRMAN: Major Stephens.

MAJOR GEORGE WASHINGTON STEPHENS: Mr. Chairman and honourable senators, you have a right to know what warrants me in accepting your kind invitation to discuss before you the question of port problems.

I come here not as a port specialist, nor as a technical adviser, but simply as a student of port problems from my love of them and their significance to Canada.

How I became interested in port problems is entirely an accident. I must tell you this because then you will see why it is I might say that almost my life activities have been devoted to port questions.

As a young man I was apprenticed to a large importing house in Hamburg, Germany, in 1888. It was at that moment that Hamburg was in the throes of developing her great port. Included in that development was the building of a modern free port zone. It was not my job at that moment to interest myself in port questions. My job consisted in trying to learn the import business, endeavouring to acquire the art of writing a good business letter in German.

The first month of my stay in Hamburg saw me in the correspondence department of the firm, where my daily duties from seven in the morning until half past eight at night were mostly reading, sorting and filing the correspondence. This firm being an importing firm, and my endeavour being to acquire a good knowledge of German, forced me to study the letters that passed through my hands, and my first inkling of port administration and import qualifications was obtained through reading this correspondence. I saw there the comments of shippers, of traders, and ship masters from various ports in the world.

In 1888 Hamburg's development was unique. She was the pioneer port in all Europe for equipment and administrative efficiency and for modern free port development.

From the correspondence department of this firm I was drafted into the shipping department, which brought me into contact very frequently with shippers, with customs brokers, with traders and with merchants. Finally, after remaining in Hamburg for some time, I joined a coterie of shipping men

who lunched together every day. As a result of all that experience, while my thoughts were not specially on port development, the seeds were sown within me that gave me a taste for that kind of business.

I came home and forgot all about it. Ten years later I went to England and visited Mr. F. B. Girdlestone, who at that moment was the general manager of the port of Bristol. He was interested in showing me what was being done. From the port of Britsol, through letters of introduction that I got from him, I went from port to port among the ports of Great Britain.

When I had seen those ports and called up in my imagination the port that I had left behind me at the head of navigation in Canada, the port of Montreal, I reflected that God had done everything for us, and we had done very little for ourselves. When I saw out of what poor raw material the European and British ports had been built, when I looked at Glasgow and found that for twelve miles below the Clyde river was eighteen inches deep at the beginning and was a fordable stream in all that distance, when I compared with that the fact that the Lusitania was launched on the Clyde and that she went out into the ocean drawing 29½ feet—there is 33 feet of water in the channel of the Clyde at high tide—when I reflected on our great St. Lawrence waterway and that Canada possessed two of the greatest natural ports in the world, Halifax and Vancouver, I said to myself, "Goodness gracious me! I am going to try and light the flame of enthusiasm for Canada's navigation possibilities and the development of our ports along proper lines."

That, gentlemen, was the school through which I passed. Less than ten years later I was called to the presidency of the port of Montreal on its reorganization in 1907. One year later, accompanied by the chief engineer, I made a four months' tour and study of the principal ports of Europe.

Hon. Mr. CASGRAIN: Mr. Cowie was the engineer?

Mr. STEPHENS: Mr. F. W. Cowie.

It was my first visit to Hamburg in twenty years. I had gone there originally in 1888, and this was 1908. I found that the free port of Hamburg, in the twenty years intervening between my two visits, had twice been extended. I found that the population of the city of Hamburg had increased from 300,000 to 880,000. Its population now is 1,300,000. I found also that the free port part of the harbour of Hamburg had drawn to Hamburg, and was openly given credit for so doing, an enormous increase in the port's business.

This quickened my interest in the free port problem, and it is my considered opinion at the present day, as a student of port problems, that the most powerful competitive value that may be given to any port that commands market opportunities is to develop within it a free zone, a zone free from customs formalities, equipped with efficient warehousing space and handling devices, and endowed with first-class transportation facilities by rail and water.

It is a well known fact that all ports that have risen to world eminence, no matter in what country or in what geographical position they may be found, have been built up by providing consignment facilities for the congregation of masses of cargoes for redistribution.

The problem of minimum costs in handling cargoes and the load factor, are the two prime conditions in attracting, holding and increasing port business. The handling costs spread in British ports between themselves reaches as high as 17s. 5d. per ton; the costs spread in European ports, reduced to one currency reaches to 110 francs per ton; the costs spread between ports in the United States exceeds many dollars per ton. On the contrary, a comparison among European ports will reveal the most economic, the most prosperous and the most popular to be those which have been farsighted enough to include in their development a free port zone.

It is not the size of a port that makes it great; it is performance. In size the biggest port in the world is no doubt New York. It equals the combined

areas of Amsterdam, Antwerp, Bremen, Hamburg, Liverpool, London, and Rotterdam. Yet each of those seven ports has handled, and does handle, as much commerce as the port of New York.

Hon. Mr. KING: Each?

Mr. STEPHENS: Each.

Hon. Mr. BARNARD: What do you mean by the size of the port?

Mr. STEPHENS: I mean the area contained within the boundaries of the port. In that sense New York is the largest port in the world.

Hon. Mr. BARNARD: Is the port of New York separate from the different boroughs that go to make up the municipality of New York?

Mr. STEPHENS: That I do not know.

Hon. Mr. BARNARD: What are the boundaries of New York?

Mr. STEPHENS: What I mean to say is this, that the area of the port of New York equals the area of the seven European ports which I have named. That is the significance of its size.

Hon. Mr. BARNARD: That would be the amount of dockage, of water frontage?

Hon. Mr. MURDOCK: Staten Island, Brooklyn, Jersey?

Mr. STEPHENS: The whole thing.

Hon. Mr. BARNARD: Really the mileage of the water-front?

Mr. STEPHENS: Yes. New York has earned for itself the coveted title of being the largest port in the world, but it has retained the distinction of being the costliest and the foggiest port in North America.

The port that can cut the handling costs, reduce the turn around time to a ship to a minimum, that can assemble and store masses of cargoes on consignment for redistribution, reduce restrictions and formalities, makes the strongest appeal to shippers, steamship owners and railways for competitive business.

The addition of a free port area to any harbour in a protectionist country, in my opinion, accomplishes this end the quickest and the most efficiently.

A free port area affords concentrated time-saving facilities for loading, unloading, warehousing, manufacturing, sorting storing of merchandise, processing from the raw material to the finished product, with a minimum of formality and restriction, which popularizes the port in the hearts of ship captains and enhances its prestige among ship owners and traders. It relieves traders from the application of customs formalities and payment of duties until the goods pass out of the free zone for consumption within the country itself. It enables goods to be re-exported to foreign markets without the payment of any customs duties whatever. It has the additional advantage of attracting large masses of cargo for storage, awaiting re-export and redistribution as market conditions warrant. It permits the arrival of bulk cargoes for sorting, grading and re-shipment in part lots to different markets at different times, duty being paid only on each of the lots as it departs.

The assembly of mass cargoes in one place makes for sure return cargoes for ship and rail, and makes possible lower transportation rates.

By increasing the volume of the port's business a free port area increases the customs revenue of the country.

Free port areas are not experiments. They have been established to capture trade, and are nothing more than huge bonded warehousing districts, relieved of customs restrictions and formality, stragetically planned to save time, reduce handling costs and supply cargoes.

The proof of their value is to be found in the range of their existence, their periodic extension, their popularity, the prosperity of the ports where they

exist, their dividend-paying qualities, and their permanency once adopted. They are to be found as going concerns of long standing in Germany, Denmark, Sweden, Spain, Italy.

Rio de Janeiro adopted the free port idea in 1921. Mexico has had four free ports with free zones since 1921. The most modern, the most extensive free port areas that handle the greatest business are to be found in Copenhagen and in Hamburg.

A well equipped free port area becomes—and this is more important—a great entrepôt for the storage of goods from all parts of the world. I have talked with traders and shipmasters of many ports—ports that possessed free trade areas and ports that were devoid of them. I have yet to hear a single voice from trader or shipmaster against the free port.

Curiously enough there were no free port areas until quite recently in the United States, although there has been agitation for many years to establish them. The principal reason why the United States has not incorporated a free port area in any of its ports is that all the American ports have been shylocked by private interests. I mean by that that there is not a single port in the United States publicly owned. They have been plastered with private interests since the beginning, and therefore these private interests have legislative power enough to block any efforts to improve the national working of any of their ports. It just so happens that within the last few months New York has established Foreign Trade Zone No. 1 on Staten Island, in this establishment copying the birthright of European free port zones.

The CHAIRMAN: I will ask permission of the committee to put this statement into the record.

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420 Lexington Avenue, New York, N.Y.

NEW YORK FOREIGN TRADE ZONE NO. 1

By John N. Dick
Secretary

To the Borough President of Richmond
(*Special to the Bulletin*)

A foreign trade zone, the first in the United States history, is soon to be established on Staten Island.

Within six months, by the plans of its backers, the preliminary phases of a free port will be in operation in America's greatest barbour.

The most significant factor is the immediate and substantial transshipment business, especially between South America and European ports, which is implied in this new step in the shipping world.

An area on American shores where goods from all parts of the world may be landed, handled, manipulated, repacked and re-embarked with a minimum of customs supervision guarantees time savings on the triangular route, Europe, New York, South and Central America.

Such time savings should result in a concentration at the foreign trade zone of transhipment and intransit trade, an increase in American exports due to the posibilities of combining domestic with foreign commodities that are to be re-exported, an increase in the use of American containers, labels, and other packing devices, as well as obvious advantages to American labour.

The experience of free ports in foreign lands shows that trade at such ports can be as much as quadrupled in a few years, while at the same time stimulating business at the customs ports of their own countries.

Of great advantage to American firms will be the facilities for a consignment business in raw materials and for a type of procedure that will operate to repatriate American-owned Blocked Exchanges.

Manufacturers using foreign raw materials in their operations will be able to draw from stocks of imported materials in the Zone without waiting to order abroad. It will be possible to bring these materials to the foreign trade zone, unload them, store them without customs supervision, sample and inspect them, and withdraw the materials from storage in amounts as needed, paying duty only on the quantities actually brought into the country at the time when they are needed.

Thus manufacturers will be able to assure themselves of a regular, continuous source of supply and at the same time find themselves free from the unnecessary burden of tying up large amounts of capital through paying complete duty all at once on entire shipments.

Also, this makes it possible for American manufacturers to have merchandise shipped from foreign sources at the risk of the shipper, subject to inspection and approval, with the manufacturers actually not purchasing the material until such time as it is removed from the foreign trade zone to their factories.

American firms with blocked funds will be able to withdraw merchandise from foreign warehouses, bring it to the zone at Staten Island, where it will immediately become bankable collateral, and from there dispose of it on the most favourable market here or abroad.

The opportunity to perform, without costly and irksome customs supervision, the operations just described will give American manufacturers and business men who are doing export, re-export and transhipment business greater freedom than heretofore, with consequent greater opportunities to develop and enlarge their business. It is probable that business men who will undertake such activities will establish special departments within the Zone, thus opening up additional employment opportunities.

It must be obvious that the freedom from customs procedure and red tape enjoyed by the foreign trade zone and the consequent elimination of incidental delays, costs, losses and vexations will, by facilitating and expediting shipping, greatly stimulate America's foreign commerce.

During the boom years, when the whole world was enjoying the artificial stimulus aroused by our lavish foreign loans, American exporters of commodities such as textiles were able to do considerable business in South America, selling bulk quantities. Now, with restricted hand-to-mouth buying, these markets are entirely closed to our merchants and manufacturers. Purchases of small assorted lots are being made from Europe, and it is business of this type that the foreign trade zone will not only regain but foster on an enlarged scale.

Combination shipments of foreign and domestic textiles to the specifications of the Latin-American customers delivered by the frequent fast sailing of our merchant marine and even our air mail and air express services will both supplement and benefit from this virtually new business.

The foreign trade zone should assist materially to promoting the commercial supremecy of the United States in all parts of the world through fostering increased activity in the following forms of traffic:—

(*a*) Transhipment and intransit;
(*b*) Re-export;
(*c*) Consignment;
(*d*) Present bonded warehouse business;
(*e*) Steamship service to foreign ports;
(*f*) General shipping activities because of new services required;
(*g*) Banking;
(*h*) Customs and merchandise brokerage;
(*i*) Bonded and free warehousing;
(*j*) Ship supply and repair, ship chandlering;
(*k*) Manufacture of bottles, cans, labels, all types of containers.

The Staten Island zone will be known as Foreign Trade Zone Number One, under a licence issued to the City of New York approving its establishment, on January 30, this year.

The issuance of this licence was the culmination of 20 years' sporadic and finally concentrated agitation which led, in June, 1934, to the enactment of the Celler Act, which is permissive legislation for the establishment of foreign trade zones in the United States. The author of this act, Congressman Emanuel Celler of Brooklyn, is a most enthusiastic supporter of free ports. Another enthusiast is Mayor Florello H. LaGuardia of New York City, whom the writer represented in Washington negotiating the issuance of the Grant.

When the permissive legislation was enacted in Washington, Borough President Joseph A. Palma of Richmond requested me to organize a staff of engineers, technicians, shipping experts and others to make a study which has led to the establishment of The Preliminary Procedures for the Zone.

Construction of the necessary improvements at Staten Island is already under way, thus giving employment to many. When such construction work is in full swing, at least 1,000 will be employed.

Indirectly, the Zone will accelerate employment even hundreds of miles away. The creation of new forms of business activity; the increase in railway traffic (bringing domestic merchandise into the Zone for mixing with foreign goods); the increase in banking and insurance business which will result from Zone activities—all these will reflect themselves to the advantage of the employment situation.

The Zone itself will employ approximately four hundred persons in its first year of operation. Later, as the Zone business grows, it is estimated that several times this number will be required for effective Zone operation. In addition, hundreds of persons undoubtedly will be employed at the Zone to represent the innumerable firms that will avail themselves of the Zone facilities.

Major STEPHENS: Now, the Americans in their effort to stop the development of free port zones in their own seaports have, in my opinion, paid the highest compliment that could be paid to the efficiency of a free port. They have even gone to the length of declaring the establishment of free port zones in the United States to be unconstitutional. There seems to be an epidemic of unconstitutionality in many spheres of American public life.

Hon. Mr. MURDOCK: And you might say Canada.

Major STEPHENS: Canada, on the other hand, is free from this incubus; all her ports are publicly owned and national in character—an ideal situation, in my estimation, for the development of free port zones.

If Canada adopts this free port idea, it is my earnest opinion that she gives herself a chance, thereby, of becoming the great bonded warehouse area not only for Canada but for the continent of North America.

Before closing my short talk on this free port problem, I would ask you, sir, to allow me to read to this honourable body what the outstanding port authority in America says of the best organized and administered port on this continent.

> Probably the most thoroughly organized North American port is that of Montreal. This is a public trust with far-reaching rights. Unless the port authority owns the port it cannot accomplish very much, but at Montreal the moment one steps through the gate into the port area he is under a new government. The port authority maintains its own police and can make arrests; it can appropriate property required for waterfront developments; it makes its own rules; borrows its own money; it owns, operates and controls to the fullest possible extent. It has been remarkably successful.

That is taken from the book on Port Development written by R. S. MacElwee, who, in my opinion, is one of the best informed minds on port problems to be found anywhere.

Now, let me read a short paragraph which expresses the opinion of Grant Williams of the London port authority. I take this from a Vancouver paper of May 27.

> If Vancouver became a free port it would realize tremendous benefits, stated Grant Williams, representative of the port of London authority, during an inspection of the coast city's harbour. Such a move would be of immense value to the city's growth and commerce. I consider your natural harbour facilities as equal to those of Sydney, Australia.

Now, Mr. Chairman, I should like to say one word in conclusion.

Hon. Mr. MURDOCK: Would you indicate where Mr. MacElwee is from?

Major STEPHENS: Yes, I will give you the address. It would be very well worth anybody's while to get his book, which is a complete compendium of port and transportation problems. It is a library in itself. The name is R. S. MacElwee, and the book is published by McGraw-Hill Book Company, Inc., 370 Seventh ave., New York.

I hope, Mr. Chairman, that I have left the impression with this Committee, whatever the value of what I have said may be, less or more, that I am sincere in coming here in an effort to increase the enthusiasm for the development of Canada's ports in a proper way. I express the hope that you will pass this Bill; that you will give into the hands of a government authority—the minister—the power to establish free ports in Canada should the occasion arise.

I thank you, sirs, for your kind hearing.

The CHAIRMAN: Major Stephens, when you visited Hamburg in 1888, what was the organization outside of the free port area? Were there many bonded warehouses, for instance?

Major STEPHENS: Yes. There was an established bonded warehouse business of long standing in Hamburg. It was established long before the free port. Hamburg was one of the eighty Hanseatic towns of ancient history in navigation, nearly all of which gave birth in some form or other to the idea of developing a free area within their ports, and Hamburg was developed in its early stages along these lines.

The CHAIRMAN: Twenty years after your first visit you revisited the port of Hamburg. Did you notice that the bonded warehouses outside the free port had suffered any loss through the establishment of a free port zone?

Major STEPHENS: Well, it is my impression, and I think it would be borne out by closer investigation, that the owners of the former bonded warehouses within the area of the city of Hamburg were the largest subscribers in cash to the shares of the new free port bonded warehouse district. And they still are. It is an important thing to remember that free port areas all over Europe are not the result of the investment of public moneys. They are the result of the contributions made by the business men and merchants who become shareholders in the enterprise. The port authority, as in the case of Hamburg, takes a certain proportion of the capital stock as part of its remuneration.

Hon. Mr. MURDOCK: In every case where there is a free port does it consist of a zone within a general port?

Major STEPHENS: Well, there are two or three different classes of zones. Some of them are within the natural port area, and some are without. Hamburg, for instance, has her free port area within the port of Hamburg, and a free port in her auxiliary port, fifty-six miles down the river, at Cuxhaven. I think individual circumstances and the extent of the hinterland of trade and all such things influence the choice of whether the free zone shall be only part of the main port or shall be separated from it, or shall be part in one port and part in another.

I think, of course, that the two ports most worthy of investigation in respect of free port zones are Hamburg and Copenhagen, because they are entirely different in character although the free port system has been adopted by both.

Hon. Mr. DUFF: Who pays the cost of running these free ports?

Major STEPHENS: The cost and expenses of most of the free ports in Europe are paid out of the profits made from the business that passes through them.

Hon. Mr. DUFF: Would that not mean that the business would cost more than it would in the ordinary way?

Major STEPHENS: No, it would cost less, because the charges are lower and the time of handling is less.

Hon. Mr. DUFF: Less in a free port than in an ordinary bonded warehouse?

Major STEPHENS: Yes. If you go to Hamburg you will see that. I believe that Hamburg, for her share capital in the free port area of her own main port, gets an annual dividend of $250,000 a year.

Hon. Mr. DUFF: That must come out of someone's pocket.

Major STEPHENS: Of course it does.

Hon. Mr. DUFF: I am trying to find out whether it is more expensive to handle goods in that way than in the ordinary way. If it is cheaper, I should like to be shown that it is.

Major STEPHENS: If you examine into the working of any free port you will find that its power of attracting business depends on its ability to handle a given quantity of cargo at a very much lower price than the ordinary port.

Hon. Mr. KING: There has not been any necessity for free ports in Great Britain.

Major STEPHENS: The biggest free port in the world, of course, is London.

Hon. Mr. KING: It is not free now.

Major STEPHENS: No.

Hon. Mr. KING: What is the attitude of the British shipper towards free ports?

Major STEPHENS: Of course we all know how hard it is to change anything in Great Britain which has been long established. The bonded warehouse system there has been developed to a high degree of efficiency, and up to now has well served the trading interests of the country.

Hon. Mr. CASGRAIN: Because they were free ports.

Major STEPHENS: Yes.

Hon. Mr. KING: But they are not to-day.

Now, just to clarify the matter, may I ask about the comparative charges at Hamburg, say, and Liverpool?

Major STEPHENS: Of course, that is a matter of comparison every year, more or less, because these rates are not stable at either place. What the difference is now, as between the two ports, I cannot say, but Hamburg has the reputation of being, from the point of view of the shipper and the trader, one of the most advantageous ports in the world. It has earned and maintained that reputation.

Hon. Mr. DUFF: But outside of the actual handling cost, of stevedores and longshoremen, there must be a number of other charges which you would not have in the ordinary port.

Major STEPHENS: That may very well be true, but there are antidotal advantages in a free port that either kill or override the superior charges within the free port as compared to the charges that are made outside. But the funda-

mental idea in the development of a free port is to make it so efficient that although the charges may be higher per ton the total cost of handling the cargo will be very much less because of the handling devices and the saving of time.

The CHAIRMAN: Where is the port of Gdnia?

Major STEPHENS: That is in Poland. Gdnia is the port that has been built since the War in Poland to take the place of the port of Danzig.

The CHAIRMAN: It has been made a free port also—

Major STEPHENS: Yes.

The CHAIRMAN: —according to the New York Times.

Major STEPHENS: Yes. Gdnia is rather interesting.

Hon. Mr. CASGRAIN: It is in the corridor, is it?

Major STEPHENS: It is just on the edge of it. Apart from its port qualifications Gdnia is interesting because the money that has gone to create it is said to have been largely subscribed by the armament makers of Europe.

Hon. Mr. KING: Do you think, Major Stephens, if provision were made by this Bill for the establishment of free ports in Canada, that private capital would enter the field?

Major STEPHENS: Well, at the present time, of course, as far as I know there is in Canada not much sentiment for ports of any kind. When I had gone through my little experience in Europe I came home aflame to let my fellow countrymen know what I had seen and how I felt in regard to the importance of equipping the country with advanced and efficient ports. It will take time for that feeling to grow. I doubt whether at the present time it would appeal to many people as a venture in which to invest private capital.

Hon. Mr. MURDOCK: But I judge it to be your view that the importers and shippers and warehouse people in Montreal would subscribe to the establishment and maintenance of a free port.

Major STEPHENS: I think they would, once they understood the tremendous power it would have.

Hon. Mr. CASGRAIN: They would have to be educated.

Hon. Mr. DUFF: The Government has spent a great deal of money in connection with harbours like Montreal, Vancouver and Halifax. Take Montreal, for instance. Would it be your idea to establish this free zone outside the present limitations of the Harbour Commission's property or within that area?

Major STEPHENS: That is a very important question, and one that can only be decided from a deep and earnest study of all the conditions.

Hon. Mr. DUFF: Exactly.

Major STEPHENS: I should like to mention one fact that I have omitted. I think it would be an easy matter to create enthusiasm if we could imagine a large manufacturing area being established on the St. Lawrence with deep water approaches and railway connections. Added to that, if I am speaking of Montreal, my home city, there is a large amount of electrical power available for manufacturing purposes within the district.

Hon. Mr. CASGRAIN: All idle now.

Major STEPHENS: That ought to give the district a tremendous appeal for the establishment of a greater industrial area. That leads to this: if you can command a diversification of cargoes for the ships that come in or trade there, you are going simply to attract ships by almost automatic inducement, because they are sure of a variety of cargo at the port.

Hon. Mr. DUFF: Yes. But if you build up those outside areas with their own piers and facilities, will you not interfere with the harbour facilities provided by the money of the people of Canada at Montreal, Halifax and Vancouver? That is what I am trying to get clear in my mind.

Mr. STEPHENS: If my memory serves me rightly, the amount of Hamburg business handled by the free port and that handled by the customs port is in the proportion of fifty-fifty. The business sorts itself out apparently, and that of a certain class always seeks the free port, and that of another class always seeks the customs port.

Hon. Mr. DUFF: We have built up with the taxpayers' money organizations and properties in our different ports, for instance, Montreal and Halifax. We have facilities there for a population of 50,000,000 people, or perhaps ten times the business they are doing now. If you establish a free port in either Halifax or Montreal, outside of the present terminals and facilities, is not that going to affect the investment which the people of Canada have put into those ports?

Mr. STEPHENS: I should be of the opinion, sir, that the enormous increase of business to a port which establishes a free zone increases the business of the customs port as well as the business of the other port. So that in the end both customs port and free port are full up.

Hon. Mr. DUFF: They would do more business?

Mr. STEPHENS: Yes.

Hon. Mr. KING: In other words, the new business which would come to the port on account of the free zone would enrich the customs port?

Mr. STEPHENS: Yes, exactly.

Hon. Mr. KING: I find in reading the different authorities who are in favour of free port zones that they make the point pretty clear; but of course they are advocating free ports.

Hon. Mr. DUFF: I do not see any harm in passing the Bill. I think before the Government granted permission to a private corporation to establish a free port zone it should go into the matter very thoroughly and ascertain whether the establishment of a free port zone would hurt the regular business of the port.

Hon. Mr. MURDOCK: Major Stephens, how much of a handicap would it be to the establishment of a free port zone at Montreal that for about five months of the year at least the port would be tied up by climatic conditions?

Mr. STEPHENS: Looking at the port of Montreal as being closed by ice for many months, the establishment of a free port area there would add to the prestige of the port, for this reason, that shippers would take advantage of the efficient warehousing district within the free port to send cargoes ahead of the market and store them there instead of storing them three thousand miles away.

Hon. Mr. CASGRAIN: And the goods could be manufactured during the winter.

Mr. STEPHENS: Yes. I should like to say one thing. If I had the power to give a licence to any group of merchants, I would insist that two competent men be sent to Hamburg and to Copenhagen to remain there for three or four months and watch the procedure of the business, and so get all the facts before the licence was granted.

Hon. Mr. KING: What would you suggest as the term of years of the grant?

Mr. STEPHENS: In Hamburg it is fifty years.

Hon. Mr. CASGRAIN: It is fifty years in the Bill.

Hon. Mr. BARNARD: At the time the Bill was introduced in the Senate I think I read a suggestion that so far as the manufacturing or purchasing of goods was concerned, with the possible exception of shipbuilding, it was rather disappointing at free ports.

Mr. STEPHENS: That was true in all those ports where they have not segregated the manufacturing districts from the warehousing districts. The manufacturing of certain products has been a success in free ports where the authority of the port has been wise enough to concentrate the manufacturing in one place and the warehousing in another.

The CHAIRMAN: Have you any knowledge, Major Stephens, of this report on a proposed Montreal-Atlantic terminal? It was made in March, 1927, by W. B. Richards & Company, 16 Exchange Place, New York City. They came to Montreal and for at least five or six years put forward a request that we give them space at Maisonneuve to establish an American zone of their own. They were ready to spend something like $30,000,000. It being American capital and an American organization, we did not pay much attention to it. We discounted it. We may have been wrong.

Hon. Mr. DUFF: I think so.

The CHAIRMAN: The book contains a description of a free port zone, and figures of the revenue and the possibilities of the St. Lawrence route. They were prepared to make an expenditure of $30,000,000. We refused to grant their request for the necessary facilities. I mention this merely to show that even our neighbours to the South had at that time their eyes on the importance of the St. Lawrence route.

Mr. STEPHENS: Answering your question, Mr. President, I had never heard of that report before. It seems to me it must have been urged upon men with money to invest that as it was no use to try to establish free zone areas in the United States, they should seek to establish one outside.

The CHAIRMAN: Yes.

Hon. Mr. BARNARD: Is a large area of land required for a free port zone? I suppose it would vary with the amount of business.

Mr. STEPHENS: In Hamburg the free port area at its inception was under 1,000 acres. I am informed it is now over 3,000 acres.

Hon. Mr. CASGRAIN: About five square miles.

The CHAIRMAN: Are there any other questions of Mr. Stephens? Mr. Stephens, we thank you very much for your valuable and interesting information.

Hon. Mr. CASGRAIN: I second that with all my heart.

Mr. STEPHENS: I am equally happy in having been honoured with an invitation to appear before you, gentlemen.

The CHAIRMAN: Our next witness is Mr. A. L. W. MacCallum. Mr. MacCallum is manager and secretary of the Shipping Federation of Canada, Montreal.

The CHAIRMAN: How long, Mr. MacCallum, have you been connected with the Shipping Federation of Canada?

Mr. MACCALLUM: The last nine years.

The CHAIRMAN: Could you give your reaction on a free port zone?

Mr. MACCALLUM: First of all, Mr. Chairman and gentlemen, I should like on behalf of the Federation to thank the Committee for the invitation to come here to-day. Our Federation is a steamship organization, and naturally we are most interested in the transportation end of the free port problem. Representations as to the need for a free port probably would be better made by the merchants and manufacturing interests.

I was instructed by my Federation to prepare a very brief memorandum on the whole question. Naturally shipping men have from time to time given a good deal of consideration to this problem of free ports, and perhaps the best thing I could do would be to read this memorandum, which gives our views in a general way.

Hon. CHAIRMAN and GENTLEMEN:—The advisability or desirability of making provision whereby " free ports " or " foreign trade zones " may be established in Canada has been under consideration by the members of the Shipping Federation of Canada from time to time.

The primary object of establishing foreign trade zones in any country is to attract to that country transhipment or re-consignment commerce. " Free ports " or " foreign trade zones " as now established in many European countries are segregated areas where imports are admitted free of customs duties and there graded, sorted or processed for re-shipment or re-export. According to our information manufacturing is of secondary importance within most foreign trade zones, as it is generally the practice to place such restrictions on manufacturing as will prevent the privilege of the foreign trade zone from affecting, adversely, the domestic industries of the country. In the case of Hamburg, manufacturing within the free port area is of minor importance, being confined almost entirely to shipbuilding. It is our understanding, also, that in the proposed new free port to be established on Staten Island, manufacturing will not be permitted. The fundamental function of free ports as now established is, therefore, to encourage re-transhipment of the products of foreign countries.

Whilst free ports have been in operation in many European countries for a considerable period, they have usually come into being where there is a large foreign market in neighbouring countries which are not served direct by regular steamship services. From our survey of the functions of existing " foreign trade zones," the success of any similar zone in Canada would depend upon whether or not it could develop a large re-transhipment or re-export business, because of its location and its ability to perform the function of intermediary or " middle man " in international trade. If our country were the most suitable channel of entry into foreign countries that had little or no direct shipping connections, it might be feasible to work up considerable imports from abroad which could be processed and re-exported through Canadian foreign trade zones to such countries. As, however, the United States, Newfoundland, Mexico, West Indies, and most South American countries are well served by steamship connections, it is, in our opinion, unlikely that Canada, by the establishment of foreign trade zones, would become an intermediary in foreign trade for these countries.

With regard to the possible advantage of free ports in Canada for the purpose of importing goods which could be processed in the free zone and later re-shipped into our own domestic market, we believe our existing bonded warehouse system meets the requirements if importers in respect to goods which may have to be held in bond before distribution into the Canadian market, and that, in consequence, there is no need for " free ports " to facilitate the importation of goods for our own consumption.

The Federation is an association of ocean steamship operators and is naturally mainly interested in the transportation phase of the problem. It respectfully suggests that the advantages or disadvantages of a " free port " system, whether for re-transhipment or for manufacturing and re-export, could be outlined to your committee with greater authority by the interests that would be expected to locate in " free port " areas, i.e. by the manufacturing and merchant interests of Canada. So far as the entry of vessels into foreign trade zones is concerned, ocean tonnage could load or unload in free ports as effectively as elsewhere, provided the free port area were equipped with suitable wharves for loading and unloading operations, and deep water approaches to said wharves. In the case of cargo imported into or exported from " foreign trade zones," if these zones

were established outside existing ports, deviation into them for the purpose of loading or unloading small consignments or part cargoes would entail, to the ship, the additional expense and delay of a call at another port. In consequence, cargo liners would not be attracted into these zones unless the volume of cargo destined for such zones was sufficient to compensate for the delay and extra expense involved.

The Federation respectfully submits the foregoing brief comments for the information of the Committee. As above stated, however, it feels that the need for free ports in Canada is a matter on which the merchant interests of the country can speak with greater authority than an organization representing ocean cargo carriers.

Respectfully submitted,

THE SHIPPING FEDERATION OF CANADA, INC.

The CHAIRMAN: Have you given any attention to the arguments advanced in the United States for a free port zone? They have a similar situation there?

Mr. MACCALLUM: Yes, they have a somewhat similar situation. A good deal of information can be secured there. Major Stephens, I think, referred to Mr. Richard's book. I do not know whether the Committee has had its attention called to the portion of the free port zone book giving their duties and functions?

The CHAIRMAN: In what year was it issued?

Mr. MACCALLUM: 1929.

The CHAIRMAN: It gives the result of their studies?

Mr. MACCALLUM: Yes. They made a general investigation of the European free ports.

The CHAIRMAN: And they reached no conclusion?

Mr. MACCALLUM: No; I think they give the facts pro and con.

The CHAIRMAN: Leaving it to some other persons just to judge the situation?

Mr. MACCALLUM: Yes. As I understand, the book was simply an investigation into existing free ports, so as to provide information as to what business they do and how they function.

The CHAIRMAN: Any questions of Mr. MacCallum?

Mr. DUFF: As far as I am concerned, Mr. Chairman, I think he dealt with the questions I tried to ask Mr. Stephens, and he dealt with them fairly fully.

Do you think, Mr. MacCallum, there would be any chance of doing business with the United States if we had a free port in Montreal?

Mr. MACCALLUM: There is a certain amount of retranshipment business now, but generally it is not broken up. My understanding of free ports is that they collect imports in the mass, sort and grade them, or even reprocess them, and redistribute them into the various interior markets.

Hon. Mr. CASGRAIN: From Detroit automobiles are brought down on the decks of vessels of the Canada Steamship Company.

Mr. MACCALLUM: They come in by rail too.

Hon. Mr. CASGRAIN: Those automobiles, I am told, could be put in a free zone at Montreal, and reshipped to all parts of the world. Ships leave Montreal for the seven seas. The shipping rate would be very low for the transportation of those automobiles because it would be found money for the shipping company.

Hon. Mr. DUFF: Mr. MacCallum, either Major Stephens or the chairman suggested that if a free trade zone were established in Montreal large quantities of goods from foreign countries might be placed in the free zone to remain there until the following spring. With your experience and knowledge of tonnage, would that likely happen at a port where it is so easy nowadays to get ships to carry all the cargo available?

Mr. MacCallum: If Montreal was a distribution point, in the winter time some of the stuff could be stored there and distributed by rail or otherwise. Of course, those goods might be attracted by a free port, but I cannot quite see it. Those goods can go by Halifax, Saint John or New York in the winter. I do not think it would be done unless the importer or the exporter wished to purchase in large quantities and distribute later on.

Hon. Mr. Duff: Is that likely to happen?

Mr. MacCallum: Shippers are taking in smaller quantities all the time. That is why we see such a development of the business in small packages. From the standpoint of the Federation we are interested in anything that will bring more traffic in ships.

Hon. Mr. Duff: Quite right.

The Chairman: Any other questions, honourable senators?

Hon. Mr. Casgrain: No.

The Chairman: We thank you, Mr. MacCallum.

We have with us now Mr. W. McLeod Clarke, Secretary of the Canadian Chambers of Commerce, Montreal.

Mr. Clarke, would you give us your reaction with regard to free trade zones or free ports?

Mr. Clarke:

Honourable Sirs,—The Executive of the Canadian Chamber of Commerce is appreciative of the opportunity you have courteously afforded it, briefly to lay before this Committee of the Seuate, its views on the question of Free Foreign Trade Zones.

Bill E2, which is now under consideration is, we understand, an enabling piece of legislation, and does not actually create free trading zones in Canada. On the other hand the Bill, by its very nature, raises the issue as to whether the setting up of free trading zones in Canada is at present advisable or not. Without, then, entering into a discussion of the terms of the Bill, it is, we feel, much more desirable to formulate for you the opinion of those principal Boards of Trade, which are our members, and which are most affected by the proposal. These points of view have therefore been collected and were reviewed by our Executive in session yesterday, who concurred in the following observations:—

(1) It is at once admitted that free foreign trade zones, as projected by the present Bill before the Senate, have aided commercial expansion and merchant shipping in a number of European countries as in Germany and Italy. Hamburg and Trieste, for instance, in the midst of great centres of population, divided into national sovereignties, have free zones of considerable importance. In these and other ports of Northern and Central Europe, free trading ports have operated as successful entrepôts, or centres for trans-shipment to nearby countries. On the other hand the Netherlands, France, Belgium and Portugal have not established these areas.

(2) That commerce has been developed through the means of free ports is due to the fact that such ports have been important consignment markets and trade emporia for the accumulation and re-distribution of goods, essentially of foreign origin. In fact the free port is particularly designed to stimulate this consignment and trans-shipment trade.

(3) The geographical and commercial position of Canada is not analgous to that of European countries, and accordingly the conditions favouring free ports do not exist to the same extent in the Dominion. Canadian ports are remote from foreign countries to which imported goods could be re-exported. There is not therefore the evident need in Canada

for free trade zones as in European countries where several different national customs areas are served by the same port. The ultimate importance of free ports to Canada would depend largely on the extent to which our ports might become world centres for the distribution of goods coming from or the collection of goods destined for, certain areas of the world nearby or afar, which are not themselves great shipping centres.

Canada's external trade over a period of years does not seem to indicate that the Dominion is appropriately situated for any large re-export trade. In 1918-19, which was the year of our largest re-export trade, Canadian exports of foreign produce amounted to $52 million, or 4 per cent of our exports. For the years 1934-35, and 1935-36, similar percentages were 1 per cent and 1·7 per cent. In view, then, of our physical situation and of our commercial history, it is hardly likely that free ports would bring about those conditions likely to encourage re-exportation.

(4) Canada cannot be expected to act as a re-distribution point for raw material to the United States, for the reason that the requirements of the United States for raw material are far greater than Canada's and thus direct importations to the United States are more economical and practicable. In fact Canada hereself, because of her more limited market requirements, obtains many of her own raw materials via American ports.

(5) Canada is not adjacent to countries, which would be inclined to use Canadian free ports, as a re-distribution focal point for their importations from the United States, Europe or the Orient.

Apart from the United States the countries nearest to Canada are the West Indies, the Central and South American Republics, Mexico and Newfoundland, and still more remote, the countries of the Pacific. Steamship communications with these countries, both from Great Britain and the major continental European powers as Germany, France and Italy and from the United States, are frequent and regular. Unless the oceanic communications for carrying goods to and from Canada offered greater shipping facilities, free zone areas would hardly encourage the development of extra trade.

(6) Canadian merchants and importers are generally satisfied with the extensive warehousing facilities which Canada has for the storing of goods in bond, either for home consumption or re-exportation. The service now provided by the Government gives, it would seem under present conditions, the major advantages, which would be afforded by the establishment of free trade zones.

Canadian exporters, moreover, are granted under existing legislation a 99 per cent drawback on imported material, which enters into the making of their product, when that product is afterward exported. What is more, the existing customs formalities are relatively simple and easy to fulfil.

There has not been nor is there now any insistent or widespread demand on the part of Canadian traders for the creation of free trade zones. In short, the bonding, and drawback privileges and the Canadian Customs facilities for imported merchandise, all of which factors foster our export trade, are generously interpreted and acceptable.

(7) The establishment of free port zones would considerably increase the administrative difficulties of the customs authorities in administering the tariff, and the policing of the foreign trade zone itself would involve materially increased expenditure.

(8) With the creation of Canadian free trading areas, the close proximity to Canada of a great manufacturing country, such as is the United States, would place American exporters in a particularly advanta-

geous position, if these manufacturers were to ship their surplus product into free port areas of Canada and use such deposits of surplus product to further their distribution in the Canadian market.

(9) A free port area is not necessary in Canada in order to provide manufacturing centre, free of customs duties for conditioning, working an re-packing for export, those raw materials which are already admitted fre of duty into Canada. A large number of such products can now be lande at any port in Canada without payment of duty and after processing, re exported without let or hindrance.

It is hardly to be expected, moreover, that Canada would allow an manufacturing in a free port area to compete with its existing manufac turing. If such permission is not contemplated, then free ports are ur necessary for manufacturing for export.

(10) The creation of a free port within or adjacent to an existin port, and the operation, therefore, of two separate areas differently treate from the customs point of view, would create competitive conditions. a free port area should prove successful, even in a moderate degree, would have a deleterious effect on existing port developments outside th free trading area. If it be argued, that it would not have any such effec then the admission is made that the free port areas would not b successful.

(11) The cost of the establishment of foreign trade zones is likely t be very large and inasmuch as private interests have not evinced an special desire for such facilities, it is more than likely that a demand wou be made upon the Federal Treasury for assistance in the creation of suc ports, whose warranty and future at best is problematical.

(12) Evidence from authentic sources in certain countries, where fr ports have been established, indicates that the provision of such tradi facilities has exercised no promotive influence on the development of trad It is further authoritatively claimed that the increased trade of several the countries, where free ports have been operating, would undoubtedly any case have taken place.

In view of the foregoing pertinent observations, the Canadia Chamber of Commerce is not prepared at present, and as a result of i preliminary survey, to support legislation which contemplates and allo the establishment of free port areas in Canada. The Canadian Chamb however, if the Senate should so desire, would be pleased to study in great detail the whole question of free trading areas in Canada.

The foregoing respectfully submitted,

W. McL. Clarke,
Secretary.

THE CANADIAN CHAMBER OF COMMERC

May 28, 1936.

The Chairman: I understood you to say there was no free port in Fran

Mr. Clarke: Not according to my latest information. You may ha something later still.

The Chairman: I have here a booklet from France which shows that th is one at Le Havre, and I understand there is another at Bordeaux.

Hon. Mr. Casgrain: And at Marseilles.

The Chairman: And very recently at Marseilles, on account of that ca where they have tunnelled under the mountains to join the Rhone river. Th are going to serve the whole interior area, and claim that Marseilles will co pete favourably with Hamburg.

Mr. CLARKE: What I have given you is only a preliminary survey.

Hon. Mr. CASGRAIN: This legislation is permissive, it is not mandatory, and ıere are no subsidies to be asked from the Government.

Mr. CLARKE: The tendency would be, sir, I know, from one port that we ıve already heard from, to ask for governmental support.

Hon. Mr. CASGRAIN: No, no.

Mr. CLARKE: I have had a wire—

Hon. Mr. CASGRAIN: Who said that? I am the author of the Bill, and I ıght to know.

Mr. CLARKE: The point was that they said private interests could not raise ıe money.

Hon. Mr. CASGRAIN: How do they know?

Mr. CLARKE: They said they had canvassed the situation.

Hon. Mr. CASGRAIN: They did?

Mr. CLARKE: Informally, I mean.

Hon. Mr. CASGRAIN: After a licence had been granted there might be ıople who would be willing to put up the money. It was private capital that ıilt Hamburg.

Mr. CLARKE: Yes, I know that.

Hon. Mr. CASGRAIN: If this Bill involved the expenditure of one dollar public money it would be out, because no private member can bring in a ill entailing such an expenditure. You know that.

Mr. CLARKE: Yes.

The CHAIRMAN: Do you think the Canadian Chambers of Commerce would ıject to this going through, leaving it to the minister to go more deeply into ıe question to find out whether the Chambers of Commerce and Boards of rade were favourable before granting a licence?

Mr. CLARKE: I have had telegrams from our members in every seaport Canada, and they are all against the Bill.

The CHAIRMAN: Have you any questions to put to Mr. Clarke, honourable ıntlemen?

Hon. Mr. CASGRAIN: You did not know that there were free ports in rance?

Mr. CLARKE: The latest information I had indicated as I have stated.

Hon. Mr. KING: Mr. Clarke and his associates seem to be afraid that if e pass the Bill private capital will not go into the venture, and the Govern- ent will be forced to support it with federal funds.

Hon. Mr. DUFF: Can Mr. Clarke give the views of the different Boards Trade?

Mr. CLARKE: We have had telegraphic communications from Vancouver, indsor, Toronto, Hamilton, Quebec, Montreal, Saint John and Halifax, all sapproving of the proposed legislation.

Hon. Mr. BARNARD: That is from the different Boards of Trade?

Mr. CLARKE: The Canadian Chamber of Commerce is an association com- ısed of 150 Boards of Trade stretching across Canada.

Hon. Mr. BARNARD: Did you say that the Vancouver Board of Trade was ıposed?

Mr. CLARKE: Yes, sir.

The CHAIRMAN: Would you judge the situation, as far as Canada is con- rned, in practically the same way as you would with respect to the United ates as a re-exporting centre?

Mr. CLARKE: Of course, the re-export trade to Central America would b more likely to take place from the United States than from Canada; and per haps the same thing would be true with respect to South America, becaus the United States have better steamship facilities than we have.

The CHAIRMAN: They use quite a little of our grain to attract steamship to their ports.

Mr. CLARKE: That is true.

The CHAIRMAN: If we paid a little more attention to the matter I thin we could double our own ports instead of permitting the United States to attrac traffic to their ports with our goods.

Mr. CLARKE: Yes, that is true. But we do not necessarily need free port That does not necessarily follow.

The CHAIRMAN: No. That is outside the question.

Mr. CLARKE: There is one point I should like to clear up. The Vancouve Board of Trade is opposed to the present legislation, but think further stud should be made of the whole scheme before a definite decision is reached. It wa because of the Vancouver recommendation that our executive submitted to yo the last paragraph of their memorandum.

Hon. Mr. BARNARD: Did they state the nature of their objection?

Mr. CLARKE: They did not think enough consideration had been given t the matter, and were of the opinion that the business interests of Canada ha not a sufficient knowledge with respect to it.

The CHAIRMAN: That is a recognized fact. It was a recognized fact the United States also. The opposition in the United States was similar what we are encountering in Canada, and it took twenty years to build up favourable public opinion.

Hon. Mr. MURDOCK: That is a fact, possibly, because, I presume, there a many others who, like myself, never heard of free ports before and nev gave the subject any consideration. As a consequence, on the impulse, they a opposed to the idea of interfering with customs prerogatives and privilege After hearing Major Stephens I think we are all of the opinion that there another side to the question.

Hon. Mr. KING: The American people having established, through legi lation, one port in New York, and being likely to establish others on the Pacif coast, what effect would that have on your attitude?

Mr. CLARKE: Well, Mr. Chairman, as I understand it, our country is n as favourably situated as even the United States to derive advantages fro free trade ports. The United States, for example, have their southern port which are much nearer to Central and South America, and they have muc better steamship facilities than we have.

Hon. Mr. MURDOCK: Would not our country provide a splendid point f the distribution in the United States of the products of British Empire countrie

Mr. CLARKE: The late history of our commerce has not so shown, has i

Hon. Mr. MURDOCK: No.

Mr. CLARKE: I quoted the re-export figures of Canada.

Hon. Mr. MURDOCK: But if there were a place here where South Afri and other Empire countries could store their goods for the time being, preparato to securing information and making proper distribution on the North America Continent, might not Canada be a fairly good distributing point?

Mr. CLARKE: I think it is quite possible, but it would have to be so prove and I doubt that our free port would be taken advantage of because the goo could be shipped direct to the United States. Why South Africa wou ship to Canada when she could ship to the United States direct, I cannot se

Hon. Mr. BARNARD: Would the establishment of ports of this kind in the United States injuriously affect the present ports of Canada if they had no such zone of their own?

Mr. CLARKE: Of course, again, that would have to be proven. My own opinion is that it would not.

Hon. Mr. KING: The Chairman has very strong views on that.

Hon. Mr. MURDOCK: Is it probable that the free zone recently established on Staten Island will be utilized as a storage place for goods with a view to later exporting them direct to Canada?

Mr. CLARKE: They may have that idea in mind. I do not know, sir.

The CHAIRMAN: That is the case to such an extent that there is a project to connect the Hudson river with Lake Champlain by a 27½ foot canal, and there is an amount in the estimates. The idea is to keep right on to Sorel. Surely this route will not be to our advantage, because if they have a free port in the United States goods will be stored there to be sent over this route to the middle western states.

Hon. Mr. KING: They will take advantage of the water rates right through.

The CHAIRMAN: This question has been considered by a very strong American financial group. In 1927 they wanted to establish this place of distribution at Montreal, and if we had granted them permission you would have had a free port there.

Mr. CLARKE: Yes. Might I have another word, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. CLARKE: From 1919 to 1925 I happened to be acting as Government Trade Commissioner in Italy. At that time at the request of the Department of Trade and Commerce I studied the question of free ports in Europe. I found a great deal of difference of opinion expressed by the various importers and merchants, and even by the Governments themselves, with regard to the advantages or disadvantages of free ports. It was reported to me directly at that time that the influence of a free port did not amount to anything at all in European countries, that the trade would have to come anyway. I had that information from Government officials. The latest book I have on free ports is dated 1931, and of course there may have been a great many developments since then. That opinion is still expressed by American Consuls-General in a great many of the leading ports of Europe. The trade of those different ports has not developed because of the setting up of free ports.

The CHAIRMAN: I thank you, Mr. Clarke.

Hon. Mr. MURDOCK: Are there any other witnesses to be heard, Mr. Chairman?

The CHAIRMAN: No.

Hon. Mr. MURDOCK: Then I should like to suggest something definite in the form of a motion.

Hon. Mr. MURDOCK: Mr. Chairman, when I first heard of free trade zones I knew nothing about the matter, and I know very little now, but I do know there is another side to it which I am quite sure many of us had never heard of before. I think it is safe to say that Major Stephens has had more experience in matters of this kind than any other man in Canada. It seems to me that honourable senators not members of this Committee should also have the benefit of Major Stephens' views, and therefore I beg to move:—

> That we report to the Senate and advise that we have to-day received from Major Stephens a concise outline of his views on the question of free trade zones, and that we request that the statement of Major Stephens be printed as an appendix to the proceedings of the Senate

to-day for the information of all senators and other interested in this important question.

I think every senator ought to have a copy of Major Stephens' statement.

Hon. Mr. DUFF: The proceedings of this Committee will be printed in pamphlet form, and every senator will get a copy.

Hon. Mr. BARNARD: I do not think we should circulate Mr. Stephens' statement and ignore the statement of Mr. Clarke.

Hon. Mr. DUFF: I suggest, Mr. Chairman, that you move in the House this afternoon that the proceedings be printed in pamphlet form and distributed as quickly as possible.

It was moved by Hon. Mr. Murdock, seconded by Hon. Mr. Duff:—

That the Committee be authorized to print 500 copies in English and 250 copies in French of the proceedings of this Committee.

The motion was agreed to.

The Committee adjourned until to-morrow at 10.30 a.m.

APPENDIX

The CHAIRMAN: I have here, honourable senators, a long list of French authors who have written on free ports. There are sixteen of them. I am not going to read the names, but I should like to put into the record of proceedings a report of Mr. Paul de Rousiers to the Association des Grands Ports Français —the Association of Great French Ports—on a Private Bill presented by Mr. Candace, a member of the French Chamber of Representatives, providing for the establishment of free sea and river zones. The Bill, No. 209, was presented on June 15, 1928. The document is in French and has been translated by officers of the Senate.

PRIVATE BILL PRESENTED BY M. CANDACE, MEMBER (OF THE CHAMBER OF REPRESENTATIVES, FRANCE), PROVIDING FOR THE ESTABLISHMENT OF FREE SEA AND RIVER ZONES.

(No. 209, presented on June 15th, 1928)

REPORT OF MR. PAUL DE ROUSIERS TO THE "ASSOCIATION DES GRANDS PORTS FRANÇAIS (THE ASSOCIATION OF GREAT FRENCH PORTS).

The question of the establishment of free zones in sea ports has been debated many times in the French Parliament during the last thirty years. A first bill brought down by Messrs. Thierry, Antide Boyer, Cadenat and Carnaut, had been favourably reported on by Mr. Muzet, Chairman of the Commerce Committee on the 6th of July, 1901. On the 4th of April, 1903, a Government measure had been the object of a favourable report by Mr. Chaumet. On January 11th, 1907, another favourable report by Mr. Chaumet on the Thierry Bill was accepted by the Minister of Commerce. Finally, on the 10th of July, 1914, a private bill sponsored by Messrs. Bergeon, Chevillon and Candace took up the draft of 1907 with a few amendments.

Mr. Gratien Candace's bill is therefore not originally and simply the private opinion of a member of Parliament on a maritime problem. It raises a question which has already been examined several times and which, notwithstanding the objections it may have aroused, claims the attention of all those who are informed on modern maritime interests, both in France, and in foreign countries.

Indeed, it is interesting to observe the extraordinary extension of free zone regimes in European sea ports since the beginning of the present century.

About forty years ago, Germany was the first to establish the regime of free zones as it is understood to-day. Hamburg, Bremen, Lubeck each possesses a free zone since a date which corresponds closely with the time of entry into the Zollverein of the states named after these ports. Since then, the regime of free zones was extended to Kiel in 1924, to Flensburg and Koenigsburg.

In Denmark, the Port of Copenhagen was organized under the free zone regime on the 9th of October, 1894.

In Italy, the *deposito franco* of Genoa has been in existence for several years already. A decree dated December 22nd, 1927, provides that from the first of January, 1928, the ports of Savona, Genoa, Leghorn, Naples, Brindisi, Bari, Ancona, Venice, Trieste, Palermo, Fiume, Messina, Catania and Clagiari may be declared partly or totally free ports. The establishment and the determination of the limits of these free ports will take place by Royal proclamation on the recommendation of the proper ministers.

In Sweden, the free zone of Stockholm was open in 1919, those of Gothenburg and Malmo in 1929.

In Spain, the port of Santander was favoured with a free zone by a decree dated August 11th, 1918. In Barcelona, the work of establishing a free zone is still in progress.

Greece established a free zone in the port of Salonika in October, 1925.

Works are in progress in Hungary, at Budapesth and Espel, to establish free zones. The same is true of Rumania, where plans dating from 1924 and 1925 provide for free zones in the ports of Giurgu, Braila, Galatz and Constantza.

Outside of Europe, the same activity may be seen: in the United States, the port of Boston was the object of a bill for the establishment of a free zone. A project of the same kind is under consideration in Buenos Aires. In Uruguay a free zone, Nueva Palmira, on the Plata River is being established.

This list, which is of course quite incomplete, shows the present popularity of free zones in maritimes centres. Like all fairly general movements of opinion, this one leads to certain exaggerations in this way that ports, the activities of which do not really call for a free zone sometimes make fruitless efforts. For instance, three free ports created in Mexico on September 24, at Salina Cruz, at Puerto Mexico, and at Guaymas were abolished in September, 1926. And in Finland the free port of Hango, established in 1919, and for which a private company had bought large tracts of land and started works worth many millions of marks, has just been abandoned; the grantee company has asked the government to buy back the works already completed. Those failures might have been prevented if, before deciding on the establishment of a free zone, pains had been taken to ascertain the part such free zone may fill as well as the possibilities of the port in which it is desired to establish one.

Let us hope at least that these experiments will bear fruit; that is why we cannot too highly praise the caution with which Mr. Candace's bill is impregnated.

It will be sufficient to read section one to realize that the bill does not force any kind of reform on sea ports, but simply places at the disposal of those who may find it useful the power of establishing free maritimes zones:—

> In the cities possessing a sea or river port, it may be decided by the council of state, after investigation, that merchandise may be admitted free of all customs duties and internal consumption taxes into any part of the port and its adjacent territories.

Thus, there is no compulsion. The ports which declare themselves satisfied with the present state of affairs—and there are many—need not adopt a system which is simply called to their attention, but which no one asks them to put into practice. How wise, for, as we shall see, all ports do not enjoy a geographical situation likely to allow them to take advantage of a free zone, and even those thus favoured by their geographical situation might not be benefited by the free zone system due to the nature of the goods which are there loaded or unloaded.

In our opinion, there is only one criticism which the original draft of section one as presented by Mr. Candace is subject to. Subsection two provided that a decree establishing a free zone in a port might only be issued on the request of the Chamber of Commerce. Evidently, the honourable deputy had not considered the establishment of autonomous ports, and he hastens to provide for them in the amended draft presented on June the 15th last, at the beginning of the present parliament. Indeed, it is quite evident that autonomous ports will be particularly able to establish free zones, provided the economic function of the port necessitates such establishment.

It may be useful to point out the analogy between the regime provided in the bill for free zones with the one provided by the Act of June 12, 1920, on

autonomous ports. The general Act which would make it possible to establish free zones on French territory would be a basic Act. It could only be applied in any such port after a decree of establishment special for that port; it is easily seen how elastic would be such a system, as decrees of establishment could adapt to the economic function of each port, the details of the regime of the free zone which would eventually be established.

From another point of view, the honourable Mr. Candace's bill shows great caution. In its section five the bill provides that in sea and river free zones, all operations of handling, sorting, mixing, matching and manipulating might take place. Therefore he does not open the free zone to the manufacture of goods nor to the operations of industrial processing.

Because of this wilful omission, certain supporters of free zones who would like to see export industries established there, find their enthusiasm rapidly cooling off. But on the other hand, this same omission quietens the fears of industrial interests which had been greatly exercised by all the projects for the establishment, on a portion of French territory fictitiously cut off from customs control, of export industries benefiting from all the geographical advantages offered by the situation of our country, and thereby escaping many charges borne by national industry. We may deplore or approve France's protective tariff for most of her industries, but one cannot refuse to take it into account, as it is quite evident that, if Parliament has recognized the necessity of protection for the whole of French industries, it is not the right moment to ask that a notable exception be made by establishing, on a certain part of the territory especially suitable to industrial undertakings a system which conflicts with the general system of the country.

But keeping away industrial operations from the free zone is not only a proof of caution, it is also a proof of enlightened wisdom. In reality and notwithstanding certain appearances, the ports which possess free zones and have certainly benefited through their establishment, have nearly always restricted the activities of that free zone, either through the very letter of the Acts which control the free zones, or in fact, by holding them to merely commercial operations.

True character of free zones.—The maritime free zones should function in an essentially commercial manner. They should facilitate to the greatest extent the re-export by sea of the merchandise which comes in by sea. Their function is extraneous to the hinterland served by the ports in which they are established.

Indeed, all the goods which enter a great port do not originate in, nor are they all bound for, the hinterland of that port. Undoubtedly, in most cases, the imports unloaded in the port must be finally distributed through land or river routes to the extremities of the dependent economic zone. Undoubtedly, also in most cases, the exports loaded in that port are the result of the natural commercial drainage of that same zone. But besides this district activity which is entirely due to the wealth, the area and efforts of the hinterland, the great ports recognize another activity. They receive goods unknown to the hinterland, which it cannot produce and does not consume, but which are there attracted because of the distributing facilities they encounter. A busy port is a gateway of sea routes as well as land routes. Ships frequently arrive and depart from there for the most various destinations. Goods unloaded at this gateway are sure to find a chance for immediate loading for some other point somewhere on the globe. It is therefore advantageous to enter that port, not because it is German, English, Belgium, French, etc., but because it is frequented.

Precisely because these goods have nothing to do with the nationality of the port and its hinterland, they do not willingly submit to the constraints imposed by national laws or local rules. All other things being equal, such goods will go to the ports most easily entered and most easily cleared from,

those where there are least requirements. They will go to Havre, Hamburg, Antwerp, or Liverpool, choosing the port which demands the smallest amount of formalities, where there are the least checks, delays and tax-gatherings. These goods are not inclined to surrender anything to countries where they do not find customers.

Consequently, they would be greatly attracted to the ports of free trade countries, to the detriment of those of protected countries, if the establishment of free zones did not permit the latter to offer the same facilities as their rivals. Indeed, these zones are simply portions of national territory separated from the customs territory thanks to a legal fiction. These zones are free of all hindrances, of all administration taxes and all customs regulations. That is what makes them free. All goods may therefore enter therein by sea and leave by sea as they would do if the whole country were under the freest, most liberal customs system.

Hamburg is the best example of free zone organization. The fact that the port as a whole belongs to the state of Hamburg, whereas only the non-free part of the port is under the customs control of the Zollverein, illustrates and realizes, so to speak, the legal fiction we mentioned above. In the free port (Freihafen), which measures 377½ hectares, the German customs have nothing to do; in the Zollverein Hafen, which measures 152·3 hectares, the customs officers hold full sway. Moreover, Hamburg is a very great port. According to the latest statistics, the weight of goods there loaded or unloaded reaches 25 millions of metric tons; it is the terminal of a large number of regular lines. It is therefore a fine example of the maritime gateway where goods are attracted without any connection with the hinterland. And Hamburg attracts goods proportionately to the mass of operations there effected, or proportionately to the tonnage of goods there handled. It is therefore an instructive and true example of the function of the free zone.

The commercial character of this function is not only revealed by the unanimous evidence of well informed Hamburgers, but also through careful observation of the activities of the free port; and it is confirmed by the circumstances which surrounded the entry of the state of Hamburg in the Zollverein in 1888.

One of the most important factors in the port activities at Hamburg is the loading on sea vessels of goods which have come in on sea vessels.

Such was the opinion expressed by Mr. Buchheister, Hydraulic Director, a high Hamburger official, as early as 1900, especially concerning the port activities due to its very function. And all the tradespeople agree, in practically the same terms, that all its interest resides in the facilities offered for commercial exchange.

It is true there are industrial establishments in the free port of Hamburg, but they are rather the remains of a previous state of affairs than a feature of the present situation. Let us bear in mind, indeed, that Hamburg, before becoming a free port, was a free state, only open to the sea, and addicted almost solely to sea trade. The great Hanseatic city kept itself proudly isolated from the poor country with which it was surrounded, and Bismarck only persuaded her to enter the Zollverein in 1888 on the express condition that her port would remain most completely free. The great argument used to persuade the state of Hamburg into the desired customs union was in fact the industrial interest of Hamburg. It was just as essential for Hamburg to enter the Zollverein in order to allow industrial development as it was necessary to keep the freedom of the port in order to favour trade. Hamburg was sadly discovering that the industries which spring up so easily in the neighbourhood of a great port preferred to settle in the suburbs which were politically independent of Hamburg, like Harburg and Altona. They could not live in the isolation of the state of Hamburg and overcome high customs barriers to find an outlet for their products.

As an experiment, it had been tried to establish a sort of reverse warehouse, a vast piece of land surrounded by walls and which was deemed to be part of the Zollverein. But that complicated settlement, too incomprehensive, known as "Zollverein Niederlage," was a failure. The necessity of finding an outlet for their industrial products forced the Hamburgers to enter the customs union, and the industrial progress of the state of Hamburg since 1888 has proved how wise they were.

After studying the port of Hamburg, one comes to two very obvious conclusions: Firstly, free zones will only interest ports which already show, because of other circumstances and generally because of their importance in their district, a considerable tonnage of loaded and unloaded goods. It is indeed because of this mass of goods that other goods are attracted to the port, although these last may neither originate nor be bound for the hinterland, but only seek certain facilities of reshipment for their ultimate destination. These last are the goods for which the port is really a gateway for which a free zone is essentially suitable.

A second important conclusion should not be forgotten: the industries which naturally spring up in the neighbourhood of great ports are not benefited by settling in a free zone, especially if the port is surrounded with high tariff countries. For the industries situated in the free port would find themselves, so to speak, without a market. Every one knows to-day how important is industrial concentration for most manufactures. To arrive at cheap production, there must be mass production, so that overhead charges may be distributed over a large tonnage of goods. That is why very few industries are able to produce only for the local market; they must seek further activities through external outlets. How abnormal would be the situation of an industry which absolutely renounced its national market and could only sell off its products on the complementary markets equally open to all its competitors from the interior!

Another conclusion to note moreover is that factories built on the necessarily quite restricted territory of the free zone would be handicapped in their future development and would find it difficult to compete with the rival factories of the interior which, situated in the customs territory, could still in a large number of cases benefit from temporary entrance, thus adding to certain advantages of the free port, that of working both for the internal and the external market and developing freely in a protected country instead of being held back within the limits of a free zone.

Goods likely to benefit from the free zone. It is not sufficient for a port to show a large tonnage of goods and to attract goods for re-export before the establishment there of a free zone becomes truly useful. It is also necessary that the products loaded or unloaded in such a port should be adaptable to the very special system of a free zone.

Let us proceed by elimination. First of all, heavy and cheap goods such as coals, ores, cements, etc., need not, except in rare cases, enter a free zone. Such goods are not suitable for transhipment because of their weight and low value. Moreover, they are usually carried by tramps, generally as full-cargo and are shipped directly to their ultimate destination. They should therefore be kept away from the free zone where they will only enter in exceptional cases.

On the other hand, most of the highly valuable goods will not enter the free zone either, not precisely because of their high value, but because their high value most of the time depends on the certainty of their origin. It is obvious, for instance, that coffee, cocoa, cotton, wool, the origin of which is exactly known and whose quoted value is according to this origin, cannot enter the free zone, where they would lose their identity as blending, recon-

ditioning, and repacking are permitted in a free zone. Goods of that class, on the contrary, find their most suitable regime in a bonded warehouse controlled by the customs, submitted to a strict discipline, the aim of which is to be able to guarantee, on their leaving the warehouse, the origin and identity of any such merchandise. The establishment of free zones has often been opposed through the introduction of certain allowances in the warehouse. Although some slight improvements may have been introduced in that direction, specially through the Act of December 29, 1917, the danger of this operation must not be lost sight of. For there are goods which are protected by the strict system of warehousing and which would be diverted from our ports if they did not find in this strictness the guarantee which they need.

But, besides these goods of proven origin, besides these wines of high quality, these selected and identified coffees, these cottons classified according to category and origin, there are large quantities of ordinary goods, mass goods, the cheapness of which makes them popular among a very large number of people. There are for instance those blending wines which are of numerous and mysterious origins, but which are known because of a certain maintained quality and flavour which are not to be found in classified products because of variations in successive crops. We have also those vegetable oils of all sorts, the quantity of which is much greater than what could be drawn from the olive trees of Provence, and which still constitute an important industry and trade. We have second class goods, the ingenious products of skilful combination, and which owe their notoriety to a trade mark known and appreciated by masses of consumers. These goods may play an important part in the general trade of a country. They might even be useful sometime in opening a foreign country to French trade, because of the large number of customers with whom they are popular. A late president of the Chamber of Commerce in Marseille called them by a picturesque name—it is true it was during the war—he called them "getting-by" goods, indicating thereby what a beneficent part they might fill in relation to other French goods which appeal to a less numerous and more selective clientèle. Such goods are precisely the ones suitable to the free zone which they demand. They have no coats-of-arms to cherish. They do not boast of an illustrious origin, but only of their adaptability to the requirements of a large public. It would evidently be regrettable not to grant them a help which might be useful to them and would at the same time give our merchant marine interesting feeders, and certain of our French ports a source of development.

Considering the matter from the point of view of the origin or destination of goods which may support a free port, two conclusions are obvious: First, all products meant for eventual consumption in the hinterland must avoid the free zone. That is due to the fact that all goods which leave the free zone have lost all proof of origin, and must be subject to a maximum tariff. That is very clearly recognized in section 8 of the Candace bill which reads thus:

> All merchandise leaving the free zone, be the port a sea or a river port, to enter the customs territory, shall be subject to the duties of the general tariff and to the surtaxes to which they would be subject if they came directly from their country of origin every time this origin may be proven under the conditions prescribed by the customs authorities.
>
> Where such origin cannot be proven, such goods will be subject to the duties of the general tariff and to the surtaxes specified in the act of January 11, 1892.

It is easily seen that in most cases the origin of the goods could not be proven. If, in fact, this origin could be proven by the customs authorities, it could only be because these authorities had controlled their entry in the free zone, and such control would cancel all the advantages of entry into a free zone in that case.

The second remark concerning the origin of goods is that, apart from reexport goods which come by sea and leave again by sea, there may be goods from the hinterland which might profit through entry into the free port, where they might be finished through appropriate blendings which might make them more attractive to overseas clients. Such is the well known case of blending wines, especially those from the Bordeaux district, blended in Bordeaux' old free warehouses with spanish wines and then exported principally to South America.

Every one remembers the spirited discussions raised over these free warehouses, and after the explanations just given, it is easy to understand the differences of opinion. Those interested in fine wines are naturally opposed to the establishment of free zones which threaten to lower the general reputation of Bordeaux wines. On the contrary, those interested in second class wines which need to be fortified before they can bear a sea voyage, regret that the abolition of free warehouses should have deprived Bordeaux of a very profitable trade. The rivalry here shown between goods of known and valued origin and ordinary goods justifies the provisions of section 9 of the bill concerning the indelible designations which must be placed on goods which leave the free zone, so the public may be warned and all confusion avoided. At any rate, those are the classified procautions taken in all free zones of maritime ports.

Moreover, maritimes free zones, according to section 11, would be subject to the Acts of July 28, 1824, June 23, 1857 and November 26, 1873, concerning frauds and industrial marks. That is due, besides, to the fact that the free zone is separated from the customs territory of the country where it is established, but not from its national territory. Therefore the laws and regulations other than customs laws and regulations are applicable there as well as on the remainder of the national territory.

Opinions of Chambers of Commerce.—These preliminary explanations, for the length of which I apologize, allow one to understand the highly justified reasons of opinions expressed by most of the Chambers of Commerce of the great sea ports.

Let us take the report presented by the Chamber of Commerce of Marseilles and written by Mr. J. B. Rocca, on the establishment of free maritimes zones, and adopted by that Chamber May 1, 1928. We find that, while making recommendations favourable to the Candace bill, the Marseilles Chamber of Commerce regrets that the bill should have excluded industrial operations from the free zone. It is quite natural, first of all, that the Chamber of Commerce should see the advantage of a free zone in its port. Goods for reshipping form a large part in the trade of Marseilles. Besides, a great part of those goods are exactly of the character which we admitted as suitable products to take advantage of the free zone; by studying in the general table concerning trade and shipping, the statistics for the port of Marseilles, it is found that the total of goods loaded and unloaded in 1926 represent a weight of 6,570,342 tons and a value of 26,112,664,000 francs, which makes an average ton value of 4,352 francs. If, on the other hand the same calculation is made for the ports of Rouen and Havre, one gets the following results:—

	Value	Weight	Mean average
Rouen. . . .	4,790,079,000 francs	5,568,279 tons	958 francs
Le Havre. .	24,829,874,000 "	3,777,777 "	8,278 "

As may be seen, the average value of the ton at Marseilles is very much lower than the average value of the ton at Havre, and very much higher than the average value of the ton at Rouen. Le Havre represents essentially goods of origin, goods for warehousing and not suitable to the free zone. Rouen, on the other hand, represents weighty goods which, as we also saw above, are not very

suitable to the free zone. Whereas Marseilles receives, in the ordinary course of events, a fairly large quantity of common goods exactly suitable to the free zone, besides receiving weighty and original goods; it is therefore not surprising that the opinion of the Chamber of Commerce should be coloured by the economic function of the port.

On the other hand, the Chamber of Commerce regrets that the free zone should not be open to industrial operations; that is explained by the importance of the industrial function in the port of Marseilles; but when one considers the great future which was opened to this fuction through the piercing of the Rove tunnel and the annexation by Marseilles of the Berre and the Coronte ponds, it may be said without exaggeration that the future will see an expansion greatly beyond the limits of the free zone which it will be possible to establish.

Let us study now the report presented by Mr. R. Godet to the Chamber of Commerce of Havre, and discussed by the Chamber during its meeting of the 16th of February last. We find there, on the contrary, that the Chamber praises Mr. Candace highly for keeping industrial operations out of the free zone, thereby keeping to the free zone its exclusively commercial character. The Chamber even insists that the free zone should be very wide open to all commercial operations, especially in regard to blending for re-export of wines, alcohols and brandies. Far from believing that the admittance of wines in free zones would injuriously affect national production, the Chamber thinks this admission would create an interesting outlet for French wines and would place them for export on an equal footing with like foreign products.

The Chamber also asks that colonial rough lumber received at Havre with a view to re-export may be sawn, planed, tongue-and-grooved in the free zone, as these operations, which colonies find hard to do, are nevertheless indispensable to facilitate export sales. But the Chamber of Commerce of Havre presents a few observations on the Candace bill regarding additional guarantees which they demand earnestly for distinction between the products leaving the free zone and those leaving the warehouse. It is easily understood that the representatives of Havre should consider it essential to keep the merchandise of known and valued origin which are treated on that market's strictest guarantee. It is impossible not to concur with that conclusion on that point, as we have already called attention to the necessity of the provisions introduced on that subject by Mr. Candace in section 9 of his bill. It should be possible, in case of establishment of a free zone in a certain port, to prescribe additional measures and precautions in the special establishment decree.

The Bordeaux Chamber of Commerce favours the adoption of Mr. Candace's bill. That should surprise no one, considering the important part played by commerce in the port of Bordeaux. However, on one particular point, the Chamber of Commerce takes exception to the Candace bill: they fear that the admission of wines in free zones and the re-export of those wines to foreign countries may cause confusion and misunderstanding which might be favoured by certain tradesmen and might detract from the general reputation of French wines.

We believe moreover that the Candace bill as drafted will satisfy thereon the recommendations both of Havre and Bordeaux on that point. Thanks to the fact that the provisions of the bill are a mere structure within which will be inserted the special rules and regulations provided in the establishment decree of a free zone for each port, nothing prevents wines admitted in a prospective free zone to be established at Havre, from being either refused or admitted, according to the wishes of the authorized representatives of trade, in a free zone established at Bordeaux. That is one of the points where the elasticity of Mr. Candace's bill is shown in the clearest and most praise-worthy manner; it is one of the qualities which should recommend it to adoption by Parliament.

One might thus explain through local interest the opinion of most Chambers Commerce which have expressed themselves on the question of free zones. 'e hasten to add that this remark is not made in a spirit of carping criticism, ıt we recognize on the contrary that these different chambers reflect most :actly the economic interests of their own district.

Under these conditions, your reporter must recommend the adoption of e Candace bill as finally drafted, and introduced at the sitting of June 15,)28. Pray, notice that this draft had been amended after certain observations 'eviously made. For instance, in a law for the establishment of free zones,)t only in sea ports, but eventually also in river ports. It also takes into :count the establishment of the autonomous regime in certain French ports. therefore seems to us that it is both comprehensive enough and wide enough satisfy all interests without causing any friction among contradictory inter- ts because of any compulsion whatever.

MINUTES OF EVIDENCE

THURSDAY, June 4, 1936.

The Special Committee on Bill E2, an Act to enable the establishment, eration and maintenance of free foreign trade zones resumed this day at 30 a.m.

Hon. Mr. Rainville in the Chair.

The CHAIRMAN: Does the Committee desire to hear the Customs reaction free ports?

Hon. Mr. CASGRAIN: Certainly.

Hon. Mr. BEAUBIEN: If they have any objection to the Bill from the point view of the administration of their own Department.

Hon. Mr. DUFF: I do not think it is fair to ask the Customs officials at they think of the Bill.

Hon. Mr. CASGRAIN: They might make some very good suggestions to orporate in the Bill.

Hon. Mr. MURDOCK: I do not think the Customs officers ought to be ed to indicate their views for or against; but they could give us probably ne facts in relation to what will grow out of this Bill.

Hon. Mr. DUFF: Yes.

Hon. Mr. BEAUBIEN: All I desire to know is whether or not this Bill uld be considered by the Customs officials as an obstacle thrown in the way their Department. If they have any objection we should know what it is l whether it can be removed.

The CHAIRMAN: Yes. We will hear Mr. E. D. Lennie, Chief Inspector Customs and Excise, of the Department of National Revenue.

Mr. LENNIE: Honourable senators, I hardly think it is the function of ivil servant either to endorse or criticize this Bill; but I did think there ght be some phases of Customs administration which we might be able to e a little information on. If we can furnish you any information it is our y to do so.

Hon. Mr. CASGRAIN: That is what we want.

Mr. LENNIE: It seems to me that this Bill is predicated upon the assump- n that the Customs is quite an interference with trade and the transhipment goods.

Hon. Mr. DUFF: Customs or Customs duties?

Mr. LENNIE: No, Customs administration. As a matter of fact I do not w whether your attention was ever brought to a pamphlet issued by the San ncisco Chamber of Commerce back in 1918 when they were advocating ee port at that place. They enumerate some of the advantages which they in a free port, and I shall refer to one or two of those if you do not mind.

The CHAIRMAN: Certainly.

Mr. LENNIE: They talk of the saving of time and expense to vessels:—

(*a*) Delays due to customs boarding officers would be obviated.

far as the Canadian Customs service is concerned, there is no delay caused an officer boarding the vessel.

0095—3½

(*b*) Prompt docking and uninterrupted discharge of cargo.
You have that under Canadian Customs administration. When a vessel com into harbour and files her report she may discharge immediately.

Hon. Mr. DUFF: Sometimes before.

Mr. LENNIE: That is where she breaks the law.

Hon. Mr. CASGRAIN: For instance, when the cargo is raw sugar you ha to make tests, and then there is an argument about those tests between t Customs and the shipper. Naturally the Customs will contend for a hi reading and the shipper for a low reading, and that retards business. T same applies to liquor cargoes.

Mr. LENNIE: That is quite true, but it does not interfere with the d charge of the cargo from the vessel. Those matters can all be settled sub quently.

The CHAIRMAN: It does not interfere with the discharge of the ca as long as it goes into the warehouse.

Mr. LENNIE: Yes.

Hon. Mr. CASGRAIN: After everything is off the vessel has to pay f days' more storage. The vessel may be half way across the ocean. The own of the merchandise do not want to pay storage elsewhere, and they take f advantage of the five days.

Mr. LENNIE: You have mentioned two articles, sugar and liquor. R sugar is imported almost entirely by refineries, and the cargo is usually d charged right into the refinery premises. Refineries have bonded warehouses connection with their factories.

Hon. Mr. CASGRAIN: They get a full cargo.

Mr. LENNIE: Yes.

Hon. Mr. CASGRAIN: Then there is no trouble.

Mr. LENNIE: There is no trouble. So far as liquors are concerned, t are imported by provincial liquor control boards, and they also operate bon warehouses. The liquors are transferred to those bonded warehouses, and a adjustments are made afterwards. So there is no interference with the dischar

Hon. Mr. DUFF: No delay?

Mr. LENNIE: No delay.

Hon. Mr. MURDOCK: What is there in the statement made by Sena Casgrain that a vessel pays charges when she is in mid-Atlantic on the ret trip?

Hon. Mr. CASGRAIN: That is part of the present harbour dues.

Hon. Mr. MURDOCK: The boat pays for five days?

Hon. Mr. CASGRAIN: That is the law.

Hon. Mr. MURDOCK: When do the five days count from?

Hon. Mr. CASGRAIN: After the last tug is off the ship they have five d to pay for rental, because the cargo is put there and the men have five days take it out.

Hon. Mr. BEAUBIEN: That has nothing to do with the Customs Departm

Mr. CASGRAIN: No.

Hon. Mr. BEAUBIEN: Let us have what concerns your Department, ple Mr. Lennie.

Mr. LENNIE: Then I come to the next paragraph:—

(*c*) Omitting necessity of giving heavy bonds to customs, obligat steamship agents to pay any loss of duty by fire, theft, casualty, etc., the consequent delay while these matters are adjusted with the custo

This all refers to the United States customs. We do not have those delays ken of there. There is no bond required before a vessel is permitted to charge its cargo. It may discharge its cargo immediately into any sufferance rehouse without bond. While that applies in the United States, it does not ply in Canada.

Hon. Mr. MURDOCK: What did you say, a sufferance warehouse?

Mr. LENNIE: Yes. That is probably the technical term. It is a warehouse o which imported goods may be placed pending transhipment or clearance from toms.

The CHAIRMAN: Or settlement of any dispute?

Mr. LENNIE: I do not know whether I would say that. I referred to bonded rehouses before when I was talking about sugar and alcohol.

Hon. Mr. BEAUBIEN: Goods are stored there which are expected to be pped out again. They might be shipped out again or entered for domestic sumption.

Hon. Mr. MURDOCK: It is a suitable warehouse in which to keep goods act?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: No duties are paid there until the goods come out?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: That is the free port principle.

Mr. LENNIE: Those are some of the objections that were raised to the customs ninistration in the United States which I think do not apply in Canada. Later in this report they say:—

Three different plans have been devised.—That is speaking of how you are to e care of a cargo that comes in.

> —Two of them—the drawback system, and the system of bonded warehouses—are in use at American ports. If they were adequate, this report would not have been written.

at is, the attitude of the Chamber of Commerce in San Francisco at that time s that if the bonding warehouse facilities and the drawback facilities were equate there would be no need for a free port.

In this report they also speak of the drawback facilities. I might read the agraph:—

> When the dutiable article is a raw material used in manufacture either alone or with other raw materials native or foreign, the bonding system of course cannot be used, and the Customs provides that, upon the export of such manufacture, a rebate of the duty is granted on such part of the actual foreign material as is contained in the exported manufacture. To illustrate, imported chicle is used in the manufacture of chewing gum; imported feathers in making pillows and mattresses, foreign tin plate was formerly used in large quantities in making cans for our salmon and fruit. When the gum is exported the duty of 15 cents per pound on the chicle is subject to drawback (after deducting 1 per cent) and similarly, as to the feathers and the tin plate actually used in the cans.
>
> Here again, however, is a complicated and difficult system. The imported goods must be kept separate in the factory, its records must be kept as prescribed, and both goods and records must be open to inspection at any time. If the factory is incorporated, its articles of incorporation must be filed at the Customs House;

is next part is important.

> six official hours' notice of lading upon export vessel must be given, so that the inspector may be present and check the goods; oaths to all trans-

actions must be filed by importer, foreman, superintendent and exporte trade secrets as to manufacture must be disclosed. Finally, evidence foreign landing, or a bond to obtain such evidence, must be furnishe If all this, and still other details, be properly attended to, the drawback payable thirty days after shipment.

Hon. Mr. BARNARD: That is the American customs.

Mr. LENNIE: Yes, that is the American customs. The Canadian custon regulations are not nearly so stringent. Under our regulations it is not necessa to give six hours' notice of the exportation of goods. In fact, it is not necessa to give any notice at all. We depend for our checking upon invoices, bills lading, outward reports of vessels, and an examination of the records of t manufacturing company. If those are in order they are accepted as proof exportation, and the drawback is paid.

Hon. Mr. CANTLEY: Less 1 per cent.

Mr. LENNIE: Less 1 per cent.

Hon. Mr. MURDOCK: Might not collusion between certain parties beat t customs in that respect?

Mr. LENNIE: It may be possible, but not at all probable, I think. The is a very complete check. You have the invoice from the Canadian manufactur to the foreign consignee, you have the bookkeeping records of the company-

Hon. Mr. DUFF: First you have the record of the goods coming in.

Mr. LENNIE: Absolutely, and the manufacturing records that show th those goods went into the article which is manufactured and exported, t invoice of those goods to the foreign exporter, the bill of lading showing th the goods were shipped, the export entry and the outward report of the vess showing that they were laden on the vessel and shipped out of the country. seems to me it is a pretty complete check.

Hon. Mr. DUFF: Then you can check that with the goods remaining in t company's premises.

Mr. LENNIE: Yes. If that check is properly made—and we have qualifie men doing this work—I think the danger to the revenue is very slight. But t point I am making is that we have not all those vexatious rectrictions whi apply in the United States.

The CHAIRMAN: Maybe when we grow to be as big as the United Stat we will have to have them.

Mr. LENNIE: I cannot answer that question.

Then there is the question of transhipment, which was stressed, I believ the other day. I have already explained how goods could be discharged from t vessel into a sufferance warehouse. Now, those goods can be transhipped an sent out of the country. The outward report of the vessel, or the outwar manifest of the goods, if they go by railway, cancels the inward manifest, an the matter is closed.

The CHAIRMAN: What about duty in that case?

Mr. LENNIE: No duty applies.

The CHAIRMAN: Then, in that case there is no bonded warehouse.

Mr. LENNIE: No bonded warehouse used at all.

Hon. Mr. BEAUBIEN: You are speaking of the sufferance warehouse, whe they do away with all entanglements and fetters.

Mr. LENNIE: Yes, sir.

Hon. Mr. BEAUBIEN: The goods can be put in there, and be taken ou without payment of duty.

Mr. LENNIE: Without payment of duty.

Hon. Mr. BEAUBIEN: Which is practically the same in principle as the free ort.

Mr. LENNIE: When they are discharged from the vessel they are put in the arehouse on the dock, which is a sufferance warehouse.

Hon. Mr. BARNARD: The goods are in the custody of the customs.

Hon. Mr. BEAUBIEN: Would you allow the Committee to have the pamphlet om which you have read?

Mr. LENNIE: Yes. There is no objection to that whatever.

Hon. Mr. MURDOCK: Under existing circumstances what happens in the se of a cargo, or three or four carloads, of English automobiles imported into is country, put into a bonded warehouse, and, shipped six months later to me other country? Will they pay the Canadian customs duty subject to the awback, or will they be bonded, and go forward as though they had gone rect from the country of manufacture to the place of destination?

Mr. LENNIE: If they are originally consigned to a foreign country—

Hon. Mr. MURDOCK: No, originally consigned to Canada. The duty would paid then?

Mr. LENNIE: Yes. That is where the bonded warehouse comes in. If a an imports goods which he intends subsequently to export to some other untry, he has the privilege of putting them in a bonded warehouse without yment of duty. That bonded warehouse is under a Crown lock and the key held by the Customs, and he may leave them there six months and at the piration of that time export them without the payment of duty.

Hon. Mr. MURDOCK: The only charge would be—

Mr. LENNIE: The warehousing fees.

Hon. Mr. BEAUBIEN: What is the limit of the period for which these goods n be kept?

Mr. LENNIE: Two years, except that in the case of certain articles there is ovision for an extension.

Hon. Mr. MURDOCK: That seem to meet one of the claims made on behalf free ports, doesn't it?

Hon. Mr. BEAUBIEN: When goods that are intended for re-export come in d are put in a warehouse, do you allow those goods to be broken into and lection made, or do they remain intact for six months?

Mr. LENNIE: There is a provision in the Act for repacking goods. They ay be repacked in a bonded warehouse.

The CHAIRMAN: Cigars, for instance?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: Suppose I import tobacco and out of the shipment nt to use only the special leaves that make the wrappers for cigars, and to -export the rest, will you, as representing the Customs of Canada, permit me go to the warehouse, break the packages in which the tobacco comes and ke the selection, take out the wrappers and re-export the rest? Is that rmitted?

Hon. Mr. CANTLEY: It is not feasible.

Mr. LENNIE: I do not believe I have ever had a question of that kind put me before.

Hon. Mr. CANTLEY: It is not done.

Hon. Mr. MURDOCK: If you import ten automobiles and place them in bond, d six months hence utilize five of them in Canada and export the rest, what ll happen?

Mr. LENNIE: You will pay the duty on five, and export the other five withou the payment of duty.

Hon. Mr. BARNARD: You are not breaking bulk.

Hon. Mr. BEAUBIEN: I will take another example. I import furs. Onl certain kinds can be sold in Canada; the rest must be exported. I must buy th furs as they come to me on the market in England. When they come here an are put in the bonded warehouse I want to select the kind of furs that can b sold in Canada. Will you allow me to go in and break the packages and remov those that can be sold in Canada, and export the rest without the payment o duty on any but those used in Canada?

Mr. LENNIE: If I understand your question correctly, it is could you d that indiscriminately. You have a certain number of packages of furs comin in, and you want to pick certain furs out of different packages and make ne packages. I think we could let you do that by repacking in bond.

Hon. Mr. BEAUBIEN: Do you do that? Is it not the fact that in the case o furs the importer has to pay the duty on the whole of the packages and late on claim a refund, or drawback on the portion of the goods re-exported?

Mr. LENNIE: If those goods are going to be treated or manufactured afte they come in, there would be a drawback.

Hon. Mr. BEAUBIEN: Is it not a rule of your department that in such a cas as I have cited the customs duties have to be paid on the total amount of th goods, and a claim for drawback made on that portion which is afterward re-exported?

Mr. LENNIE: You are putting a hypothetical question to me. I have no had a case of that kind come to my attention. I am doubtful if it could be don under the regulations as they exist at the present time.

Hon. Mr. BEAUBIEN: You think the duty would probably have to be pai on the total amount, and the drawback claimed on the portion that is re-exported

Mr. LENNIE: Yes.

Hon. Mr. DUFF: Has it ever been suggested to the Customs that it shoul do what the senator asks? It seems to me that if an importer went to th Customs and said: "I want to take out half these furs to be used in Canad and will pay the duty on them," the Customs would not ask him to pay the dut on the whole shipment. Perhaps it has never been asked to do that.

Mr. LENNIE: Not to my knowledge.

Hon. Mr. MURDOCK: Take this importer who imports ten automobiles an six months afterwards exports five of them. He pays the duty on the five whic he keeps. Will he pay bonded warehouse charges for the entire consignmen of ten automobiles in addition to the customs duties on the five which he keep or do the bonded warehouse charges go with the customs duties charged?

Mr. LENNIE: The bonded warehouse fees are payable quarterly.

Hon. Mr. MURDOCK: Separately, and apart from the customs charges?

Mr. LENNIE: Yes.

Hon. Mr. DUFF: At the sum fixed by the Customs Department?

Mr. LENNIE: Yes, according to the time that an officer spends there. man may arrange to have an officer at his warehouse one hour a day, or full tim and the fees are graded according to the length of time the officer's services ar at his disposal at the warehouse.

Hon. Mr. MURDOCK: Is there any charge for shelter?

Mr. LENNIE: The Customs Department does not provide the bonded ware house. It is provided by the individual himself. He may have a bonde warehouse for the storing of his goods, or he may rent space in a public bonde warehouse.

The CHAIRMAN: You have no bonded warehouses?

Mr. LENNIE: We have control of them. We do not own them.

Hon. Mr. DUFF: You have bonded warehouses in your customs buildings, or spaces set apart?

Mr. LENNIE: For the examination of goods—examining warehouses—and for the storage of unclaimed goods. They are known as King's Warehouses.

Hon. Mr. MURDOCK: Do you collect rental for those?

Mr. LENNIE: Yes.

Hon. Mr. MURDOCK: And fees?

Mr. LENNIE: Fees for unclaimed goods.

Hon. Mr. BARNARD: But the Government does not fix the warehouse charges. They are fixed by the owner of the warehouse.

Mr. LENNIE: As far as the bonded warehouses are concerned, yes.

Hon. Mr. BARNARD: And if a man was going to keep five automobiles for six months he would have to pay warehouse charges somewhere anyway, whether to a bonded warehouse or another one.

Hon. Mr. DUFF: In most cases the bonded warehouse belongs to the individual.

Hon. Mr. BARNARD: Then he has to pay overhead.

Hon. Mr. CANTLEY: One end of the freight yards of the Intercolonial Railway is fenced off. If I have goods there in bond and wish to remove some of them, the customs officer comes down and after I have paid the duty and removed them he locks the door and the remainder of the goods stay there.

Hon. Mr. BEAUBIEN: Have you anything else to say with respect to this Bill?

Mr. LENNIE: Simply this. It has not yet been explained to me just how it would operate in such a case as I am going to mention. If a free zone were established in the vicinity of the port of Montreal and raw materials or parts were brought there from Great Britain, France, the United States and other foreign countries, and from some parts of Canada, for the manufacture of certain articles for consumption in Canada—I do not see any difficulty if they were for export—but if they were to be consumed in Canada, what rate of duty would be applied to those articles which are the product of materials that come from various countries and are subject to varying rates of duty—preferential rates, the general tariff rates, treaty rates, and so on?

The CHAIRMAN: It would be the same as to-day.

Mr. LENNIE: But we have no free zones.

The CHAIRMAN: When they would come out for Canadian consumption they would pay the same rate.

Mr. LENNIE: We now know the countries the materials are shipped from; but this article would be composed of materials shipped from all over the world, and they would be manufactured in Canada in a territory set apart as a free zone. What is to be the rate of duty? Is it to be a duty on the article as manufactured, and if so, of what country is it the product, and what tariff is to be applied? That seems to me to be a very difficult question.

Hon. Mr. KING: Is that not happening to-day in the manufacture of rubber goods? You have different products going into them.

Mr. LENNIE: Yes, but the manufacturer imports the raw materials from different countries, and he enters those goods from those different countries and pays on them whatever duty is applicable.

Hon. Mr. CANTLEY: Does he pay any duty if it goes into a free zone?

Mr. LENNIE: No. But I understood Senator King's question to be, what is happening to-day?

Hon. Mr. KING: Would not the same facilities be provided in the free zone, so that you would know the proportions of the various raw materials that go into the manufactured articles?

Mr. LENNIE: That would be a tremendous task.

The CHAIRMAN: No. There would be a certificate as to the contents. At the free port books would be kept showing all the raw materials received and the countries from which they come, and the manufactured articles into which they go.

Hon. Mr. BEAUBIEN: When goods are imported into this country from Great Britain, in order to be classified as British, a certain proportion of their contents must be British, must they not?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: How do you establish that?

Hon. Mr. MURDOCK: Percentage of content.

Hon. Mr. BEAUBIEN: How do you establish that?

Mr. LENNIE: We get a certificate in the first place from the exporter. And of course the department always claims the right to investigate in any case of doubt.

Hon. Mr. BEAUBIEN: Suppose I am a manufacturer in a free zone, and my manufactured product consists of raw materials from Great Britain fifty per cent, raw materials from somewhere outside the British Empire twenty-five per cent and Canadian raw materials twenty-five per cent. Then if I want to sell my product in Canada and I come to pay duty, do you think your problem will be different from that which faces you when you have to decide as to the proportion of British and foreign materials in goods coming from Great Britain under the preferential tariff?

Mr. LENNIE: Yes. In the case of goods imported from Great Britain, they were manufactured or grown there, in whole or in part. But in any event, the article as it comes here is completed, and that is the article on which duty is applicable. But in the case of goods manufactured in a free zone, the raw materials may be coming from a number of countries, including Canada. Now, how are you going to charge duty on that article when it comes out of the free zone for delivery in Canada?

Hon. Mr. BEAUBIEN: In an article that comes into Canada from Great Britain there may be a certain proportion of British and foreign materials and of British and foreign labour. But the completed article comes to you for assessment of duty, and you have to find out whether in fact the manufacturing was done in Great Britain?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: In a free zone the manufacturing would be carried on right under your eyes, and when the completed article was presented to you for assessment of duty you would know just what proportion of foreign material and of Canadian material it contained. So far as you are concerned, what difference would there be between assessing goods coming from Great Britain and goods coming from the free zone?

Mr. LENNIE: My point is this. The free zone, after all, would be a part of Canada—

Hon. Mr. BEAUBIEN: For customs duties it would not be.

The CHAIRMAN: It would be a part of the world.

Mr. LENNIE: But it would be in Canadian territory, anyway. As I understand it, goods could come in there without any record being made by the Canadian customs at all.

The CHAIRMAN: No, you are wrong. Books would be kept at the free port in such a way that your officers could control everything.

Mr. LENNIE: But the importers would not report to the customs.

The CHAIRMAN: No.

Hon. Mr. BEAUBIEN: But the whole record would be there.

Mr. LENNIE: I do not understand just what the idea of the sponsors of this Bill is. Is it intended that duty should be paid on goods coming out of the free zone for delivery in Canada?

Hon. Mr. BEAUBIEN: Yes. Duty would be paid in that case just as in the case of goods coming from elsewhere in the world. What difficulty would there be about that?

Mr. LENNIE: The Customs Department would have to accept the certificate of contents. But would not the importer have to pay more duty? It seems to me the duty would be greater, because it would be on the finished article, whereas if the manufacture took place in any other part of the country the duty would be payable only on the raw materials as they came in.

Hon. Mr. BEAUBIEN: But that is begging the question, if you will pardon me. You told us it would be difficult for you to ascertain the amount of duty payable in respect of goods coming out of the free zone. That is the only thing I am asking about. As to whether the manufacturer would have to pay more duty or not, that is beyond your province. If he finds the duty is too high on goods manufactured in the free zone, he will manufacture elsewhere. What I am asking you is if it would be more difficult to ascertain the amount of duty payable on an article coming out of the free zone than on an article imported from Great Britain and said to be composed partly of British and partly of foreign raw material?

Hon. Mr. MURDOCK: We should have to make a treaty with the free zone.

Mr. LENNIE: Perhaps I did not express myself clearly. What would the duties be collected on? If they would be collected on the completed article, then of course a certificate could be issued from the free zone, just as with respect to articles coming in from Great Britain to-day.

Hon. Mr. DUFF: I think the duty would be collected on the raw material.

Mr. IDE: I am not sure, but I think they charge on the finished articles in the other zones.

Hon. Mr. BEAUBIEN: No. The compensating feature is that workmen of the country where the free zone is established are given employment.

Hon. Mr. DUFF: As I understand it, when a manufactured article is imported from England to-day duty is payable not only on the goods but on the labour. But when a manufactured article came out of the free zone for delivery in Canada, duty would be payable only on the raw material used in the article, not on the labour or other expenses. Is that not right?

Hon. Mr. BEAUBIEN: That is right.

Hon. Mr. DUFF: It would be the same as it is now with regard to raw sugar handled at the refineries in Saint John or Montreal. After raw sugar comes into the refinery at Montreal and is manufactured, duty is payable only on the raw material if the manufactured product is sold in Canada?

Mr. LENNIE: Yes.

Hon. Mr. DUFF: Well, it would be the same with regard to a free port, would it not, Senator Beaubien?

Hon. Mr. BEAUBIEN: Yes.

Mr. LENNIE: When you are dealing with a completed article, the selling price is certainly a guide in appraisement.

Hon. Mr. DUFF: As manufactured articles came out of the free zone for delivery in Canada, you would collect duty on the raw materials only that went into that article, that is on the imported raw material.

Hon. Mr. KING: The scheme may be that the manufacturer in the free zone would have an advantage over the man who imports finished articles.

Hon. Mr. DUFF: He would not have any advantage.

Hon. Mr. MURDOCK: He would, because his raw materials would come in absolutely free, and he would have no duty to pay until he determined what he was going to do with them.

Hon. Mr. DUFF: We have a concrete example now with regard to raw sugar. It is imported into Montreal and is placed in what is practically a bonded warehouse. When the refined sugar comes out of there, if it is sold in Newfoundland or St. Pierre the duty payable is only one per cent on the value of the raw sugar—that is, there is a drawback of 99 per cent; but if it is sold in Canada the full duty on the value of the raw sugar is payable. The same thing would apply as to goods coming out of the free zone.

Hon. Mr. MURDOCK: You see, there would be no bonded warehouses in the free zone.

Hon. Mr. DUFF: Yes. A free zone is a big bonded warehouse.

Hon. Mr. MURDOCK: But there is no check-up for duty purposes on goods or raw materials coming into the free zone.

Hon. Mr. DUFF: Oh, yes, there is.

The CHAIRMAN: Oh, yes. Books must be kept showing everything that is received there and customs officers have the right to inspect everything daily.

Hon. Mr. BEAUBIEN: They would have control.

Hon. Mr. DUFF: In addition, the customs would keep a record of all goods going into the free zone, so that manufacturers in the free zone could not—I would not say cheat, but they could not avoid paying the proper customs duty. As a matter of business there would be a record kept of all goods coming in and going out.

Hon. Mr. BEAUBIEN: Suppose that at a free zone a manufacturer produced certain goods for which his sale price was $10,000, made up as follows: foreign raw materials $4,000, Canadian labour $4,000, and profit $2,000. If the finished goods were sold in Canada he would have to pay duty on only the value of the raw materials, $4,000. But if the same goods were produced outside of Canada and imported in a finished state, duty would be payable on the full value, that is the value of raw materials, labour and the amount of profit?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: I understood your testimony to amount to this, that because of the special impediments or obstacles which you have mentioned free zones might not be as useful in Canada as in the United States. Have you anything further to say on behalf of your Department in connection with this Bill?

Mr. LENNIE: That is all I have to say. I was sent here, because, as I understand it, the Committee requested that somebody should come to answer questions. That is all I think we undertook to do.

Hon. Mr. DUFF: If large quantities of foreign goods were brought into a free zone and manufactured, in the manner suggested by Senator Beaubien, you would collect less in customs revenue?

Hon. Mr. BEAUBIEN: The Department would collect less revenue.

The CHAIRMAN: That is immediately.

Hon. Mr. BEAUBIEN: But Canadian material and labour would benefit.

Hon. Mr. DUFF: That is the thing.

Hon. Mr. BEAUBIEN: And what is the basic principle of customs duties? Is it not the protection of Canadian labour and Canadian materials?

Mr. LENNIE: And the production of revenue.

Hon. Mr. MURDOCK: The production of revenue to take care of the unemployed.

The CHAIRMAN: Are there any other questions? If not, may I say that I have received a letter from Mr. Clarke who was before us yesterday. With your permission, I will ask the Clerk of the Committee to read it.

The following letter was then read:—

CHATEAU LAURIER,
OTTAWA, Ont., June 3, 1936.

The Hon. J. H. RAINVILLE,
The Senate, Ottawa.

MY DEAR SENATOR,—Confirming my telephone conversation with you this afternoon I may say that I have made further inquiries regarding free ports in France.

The information I have received by telephone from the office of the Commercial Attache of the French Consulate General in Montreal is that France has no free ports. The same statement has been made to me this afternoon by one of the senior officials of the Department of Trade and Commerce here.

As one of the honourable senators called in question my statement of this morning when I said in our memorandum that "France had no free ports," I thought you would welcome this present confirmation.

You told me this afternoon that you would be good enough to inform the honourable members of your Committee of the confirmation of my morning's statement. It would also be appreciated if you would so include this confirmation in the printed or written proceedings of the Committee.

Again thanking you for your very gracious kindness, believe me,

Sincerely yours,

(Signed) W. McL. CLARKE
Secretary of the Canadian Chamber of Commerce

The Committee adjourned until Tuesday, June 9, at 10.30 a.m.

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